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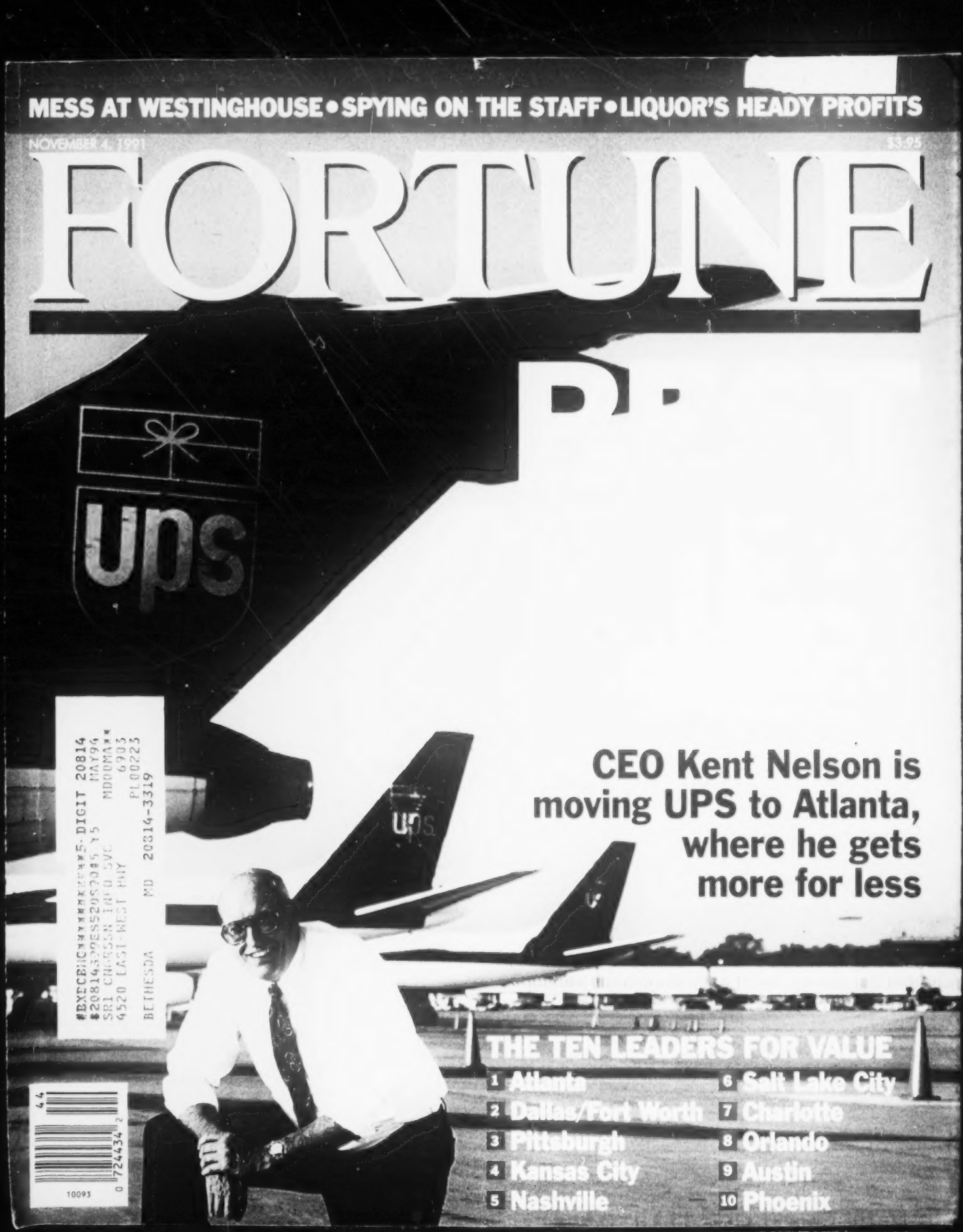

CEO Kent Nelson is moving UPS to Atlanta, where he gets more for less

THE TEN LEADERS FOR VALUE

1. Atlanta
2. Dallas/Fort Worth
3. Pittsburgh
4. Kansas City
5. Nashville
6. Salt Lake City
7. Charlotte
8. Orlando
9. Austin
10. Phoenix

NOVEMBER 4, 1991

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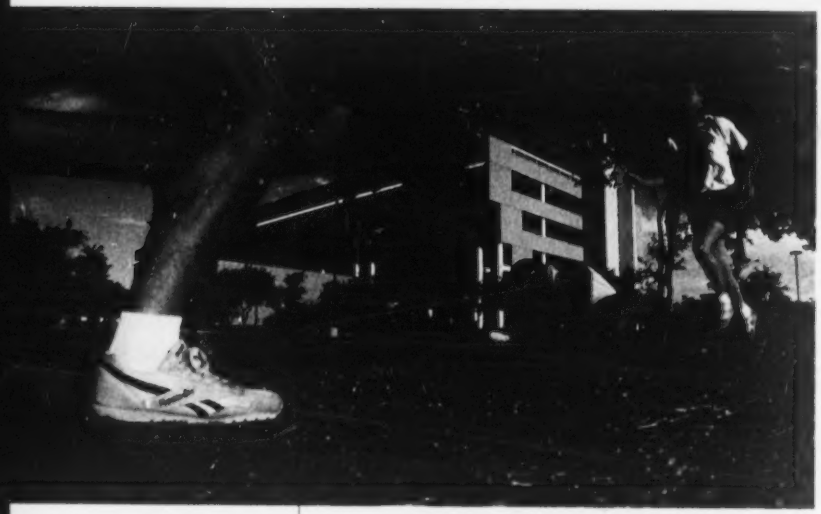

In ultra-smug Austin, *true* Texans would rather listen to the price of oil drop than sit through a presentation by a Dallas booster. PAGE 52

ABOVE: Lunchtime joggers at high-tech consortium MCC in Austin, the town with the most relaxed lifestyle of the top ten—and the least expensive. Photograph by Robb Kendrick.

COVER: After exploring his options, CEO Kent Nelson moved UPS headquarters from Greenwich, Connecticut, to Atlanta, the top-ranked city on our list. Photographed by Robb Kendrick at Atlanta's airport.

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"The crisis at Westinghouse began as a hangnail and turned into gangrene."

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"We were hearing about subtle harassment. The individuals didn't know what they could do about it."

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"This is the decade in which Apple moves from being a wild card to playing in the mainstream."

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"Good bankers are like family doctors."

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"What we're competing about is not to cut our price lower than the competitor. It is actually to keep the price higher."

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"I learned early in life that all I was going to have was what I was willing to work for."

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EDITOR'S DESK

Todd May Jr., dressed for retirement, and his successor as chief economist, Vivian Brownstein

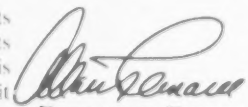
WITH HIS omnipresent pipe and studious manner, Todd May Jr. could be the economist from central casting. Looks don't deceive. We take pride in being the only magazine that produces its own economic forecast, and it's based on a model that May refined over four decades at FORTUNE. Now he is retiring and turning the chief economist's portfolio over to his longtime deputy, Vivian Brownstein. Between tennis matches (he has a deceitful backhand) and travels with wife Peggy (herself an economist), he will still serve as our consultant.

A Kansan trained in statistics and economics at Northwestern and New York University, May pioneered in the practical use of econometrics after World War II. FORTUNE hired him in 1952, passing over another promising candidate who hasn't done badly, Alan Greenspan. Like Greenspan, May is no ideologue: He distrusts dogmatic approaches that try to explain the economy by focusing on a single factor like the money supply. Instead, he worships at the shrine of fact, delving into odd corners of business where the numbers give early warning of how the real world is changing.

On a shooting range where no one hits the bull's-eye every time, May's forecasts have been remarkably accurate. But his friends at FORTUNE will most miss his wit and boundless generosity. He has patiently led generations of us through daunting statistics and kept us from economic naivete. Charles Burck, our economics editor, sums it up: "Todd has been a wonderful teacher to us all."

Brownstein shares May's nuts-and-bolts approach. Before joining us in 1960, she worked for the Federal Reserve and the Committee for Economic Development. She was instrumental in computerizing our forecasting model after the advent of PCs. Readers who have followed her insightful work over the years know she is a worthy successor.

Full Disclosure Dept.: John Huey, who wrote "The Best Cities for Business," is a native of Atlanta, picked No. 1, and lived for five years in Dallas, No. 2. But they won fair and square, and we have survey data to prove it. "If anything, my living there put these cities at a disadvantage," says Huey. "I have often been accused of treachery to the cause and collaboration with the enemy—the Yankee media. I plead guilty only to trying to put some of the outrageous boastings of these places into proper perspective."



EXECUTIVE EDITOR

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American Express CEO James Robinson III bit a $265 million bullet.

CORPORATE WRITE-OFFS ARE PILING UP

■ With its surprise $265 million after-tax charge against third-quarter earnings, **American Express** joins a growing list of companies taking write-offs. Amex's move was soon followed by **Westinghouse Electric** and **Allied-Signal**. They took giant pretax write-offs of $1.68 billion and $880 million, respectively (see table for other examples). Patricia Shangkuan, a vice president at Goldman Sachs, says write-offs taken by S&P 500 companies in the first half of 1991 added up to 50% more than in the same period last year.

In some cases, write-offs suggest that gutsy management is axing costs, profits be damned. And, of course, new CEOs like Allied-Signal's Lawrence A. Bossidy often take big hits to earnings so that the company looks more profitable later on during their watch.

Postponing write-offs can mean that a company is continuing to carry assets on its books at an inflated value (the business generated by those assets no longer warrants it) and that earnings are inflated too, waiting for a hit that will come later if not sooner. Says David Rocker, head of a New York City investment partnership bearing his name: "There has been very loose accounting, which has allowed companies to keep assets on the books for too long. The overall profitability of corporations has been greatly overstated." Adds Paul Rohan, a project manager for the Financial Accounting Standards Board, a private group that sets guidelines for corporations: "It just seems an abuse when assets are carried for more than they're worth."

American Express CEO James D. Robinson III was caught off guard by the troubles with its Optima card unit that led to the write-off. Some observers have criticized the company for not enforcing stricter controls on deadbeat accounts. But others praised Amex for taking the charge quickly once the problems were exposed and say that recent management shuffles should prevent a repeat.

Not that Robinson, or his investors, can rest easy. The company must take aggressive steps to protect its core charge card business from rivals like Visa and MasterCard while stemming the tide of merchants who don't like Amex's high fees and won't accept its card. Allied-Signal, a diversified company in aerospace and auto parts, will trim down by dumping four of its 40 businesses, cutting management layers, and eliminating 5,000 jobs. As expected, Chief Executive Bossidy, formerly vice chairman of **General Electric**, seems to be imposing a GE-like remake on Allied. See Corporate Performance for more on what drove Westinghouse to take its write-off. **– Antony J. Michels**

HITS THAT COMPANIES ARE TAKING (After-tax figures)	
AT&T	$2.6 billion
Occidental Petroleum	$2.0 billion
Continental Airlines Holdings	$1.8 billion
Unisys	$1.2 billion
Digital Equipment	$1.0 billion
Columbia Gas System	$765.0 million
Union Pacific	$575.0 million
General Dynamics	$566.9 million
Bethlehem Steel	$550.0 million
Burlington Northern	$442.0 million

FORTUNE CHART

B-SCHOOLS QUIZ JAPANESE STUDENTS

■ Getting young managers into U.S. business schools is big business in Japan, where a stateside MBA offers not only prestige but also a peek at the inner workings of America's largest corporations via case studies. Each year, scores of Japanese companies like **Daiwa Securities**, **NEC**, and **Toyota** select a handful of elite young employees for an all-expenses-paid stint at Harvard and other top schools. However, even before the students make their formal applications, their employers often pick up a $3,000 tab for a three-month course offered by cram schools where would-be students learn their first lesson in U.S. marketing—how to sell themselves.

Some such crammers, or *yobiko*, teach their would-be MBAs how to get through required standardized tests like the GMAT and the English proficiency exam. The biggest and most successful *yobiko*: Tokyo's Institute of Foreign Study. Its founder and president, Masao Nakano, boasts that his alumni have won places in many top U.S. B-schools.

And so they have. But similar-sounding essays and wide gaps between some students'

These students got into Harvard squarely.

OFFICE WOES EAST AND WEST

■ Compared with their U.S. and European counterparts, Japanese office workers consider themselves unproductive, poorly paid, and overworked. That's one finding of the first global survey of middle managers on down conducted by pollster Louis Harris for **Steelcase**, a Grand Rapids furniture maker. One big surprise is the Japanese fear of layoffs. The survey suggests that Japan's vaunted cradle-to-grave security only exists at larger corporations.

Overall, Americans are more satisfied than their Japanese and European peers (see table). But that doesn't mean they're rip-roaring happy. In fact, when asked if the quality of job life has declined, 26% said yes. In a similar 1978 U.S. poll, only 12% thought so. Fear of layoffs is growing among U.S. office workers too. Only 56% think their jobs are safe, compared with 63% in 1988 when Harris first posed the question. The Harris company interviewed 3,707 people in 15 countries for the new poll. **–R.T.**

OFFICE WORKERS RATE THEIR JOBS

Percent of those who . . .	U.S.	EC	Japan
are very satisfied with their work	43%	28%	17%
are proud of their company's products and services	65%	37%	35%
say the pay is good	44%	26%	15%
believe management is honest and ethical	40%	26%	16%
feel they can contribute significantly to the company	60%	33%	27%
believe doing a good job greatly helps them achieve their life goals	53%	65%	31%
think management is sensitive to family needs	35%	19%	21%
try to do it right the first time	67%	40%	33%
work too many hours	21%	31%	33%
feel safe from layoffs	56%	56%	50%

FORTUNE TABLE: SOURCE: LOUIS HARRIS AND ASSOCIATES

Digital Equipment, which have laid off thousands in the recession. Aries now employs 97. Customers include **Ford Motor**, which contracted with the company in 1989 to provide customized software for designing pistons and other engine parts. Says CEO Larry McArthur, 49, an alum of **IBM** and smaller companies, who founded Aries seven years ago: "If you can solve a strategic need, big companies will find money for you, even during bad times."

Economist David Birch, CEO of Cognetics, a Cambridge research firm, predicts continued hiring by firms like Cayman and Aries. His news isn't as good for small businesses more dependent on the sluggish U.S. economy. Their job growth has slowed more than 50% since 1989. Says Birch: "High-tech firms view the world as their market from day one. That's not the case for dry cleaners, real estate agents, and automobile dealers." **–R.T.**

METER MAIDS CRIMP GLOBALIZATION

■ It looks like a close relative of a 1929 Model A Ford, but it's actually brand-new, handmade in England, and priced at $100,000. Meet **Asquith Motor Carriage**'s commercial van. After successful runs in Germany, Italy, Morocco, and Japan, the vehicle is about to make its U.S. debut.

The 425 vehicles around the world belong to subsidiaries of **McDonald's**, **Colgate-Palmolive**, **Barclays Bank**, and **Source Perrier**, among others. They use them to deliver goods in a show-offy way or as mobile sales stands. **Coca-Cola**, which has an Asquith in Japan (see photo), reports that the carriage attracts three times more people—and potential customers—at soccer games and concerts than the company's conventional vans.

This month an Asquith will hit California. The owner: Baileys Irish Cream, a subsidiary of **Grand Metropolitan**, the British food and drinks giant. Crispin Reed, a former manufacturer of reproduction furniture who co-founded Asquith in 1981, made a recent visit to New York City to line up new buyers there, but he found something tougher than customer resistance. Says he: "Evading these meter maids is our most difficult task." **–R.T.**

THE IBM-MICROSOFT FEUD CONT'D

■ They're at odds again. This time the scrap centers on the multimedia personal computer, or MPC, the marriage of the PC with CD-ROM, quality sound, and animation.

IBM has been conspicuously absent from the MPC Marketing Council, a 12-member organization that includes not only **Microsoft** but also **Tandy** and **Fujitsu**. The group recently introduced products that bear MPC's logo and adhere to standards set by the council a year ago.

IBM's response to the MPC specification? "It's a red herring," says Peter Blakeney, manager of market support for IBM's multimedia computers.

This reaction comes as a surprise to Microsoft CEO Bill Gates, who claims that IBM has been "very supportive" of the MPC Council's effort to define multimedia. But Blakeney says IBM decided not to join the MPC Council because it believes that the group's specification is too slow to meet

Costumed customers sip sodas in Japan.

THE BEST CITIES FOR BUSINESS

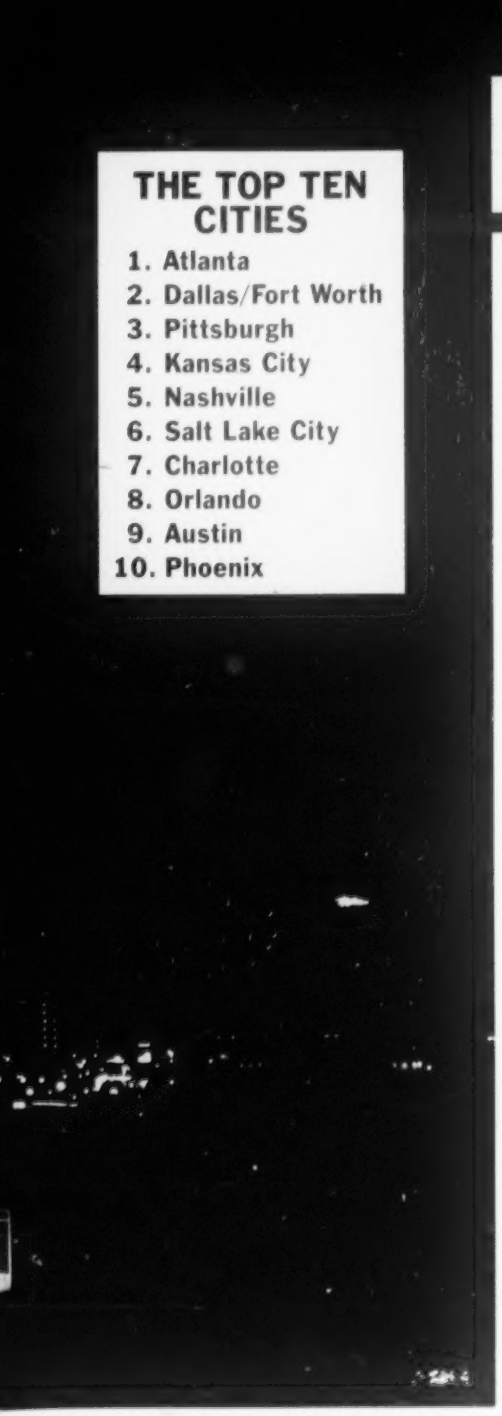
With companies squeezing costs tighter than ever, locations that give you the most for your money are hot. Here's where to find America's outstanding values. ■ *by John Huey*

Growing, restless, endlessly self-promoting, and all about making a buck: Atlanta is in an economic slowdown, which makes it all the more eager for your business.

PHOTOGRAPHS BY MICHAEL SCHWARZ—GAMMA LIAISON

THE TOP TEN CITIES

1. Atlanta
2. Dallas/Fort Worth
3. Pittsburgh
4. Kansas City
5. Nashville
6. Salt Lake City
7. Charlotte
8. Orlando
9. Austin
10. Phoenix



Office space is in oversupply, housing a bargain.

costs of labor, facilities, utilities, construction, and taxes. In fine-tuning the top ten, FORTUNE editors also drew on interviews with dozens of business leaders in many of the cities and with experts, including MS&B consultants and other authorities.

What's on Atlanta's balance sheet? The main liabilities are a high crime rate and notably poor public schools—yet the city was a blowout winner in the survey of executives. MS&B's Gerard says the survey muffled hometown boosterism—and struck a balance between perception and reality—by separating respondents' satisfaction with their own cities from their opinions of other cities. Atlanta stood out in both measures. It was by far the most popular choice among outsiders, and its executives had a more favorable opinion of their town than did those of any other place in the top ten except Kansas City. As for costs, Atlanta is the 15th-least-expensive city among America's 50 largest. That combination of quality and moderate cost was the best of the bunch, leading to Atlanta's No. 1 ranking.

The attributes executives most demand in a city are simple and sensible. They are, in order:

- A flexible, high-quality work force.
- Proximity to markets.
- A strong local pro-business attitude.
- A good public education system.
- Convenient air service to key cities.
- Costs—housing, labor, facilities, and taxes.
- An efficient highway system.
- A whole host of intangibles amounting to "quality of life."

While companies are looking harder for savings these days, they are not willing to sacrifice these attributes to lower their costs. So the top ten for value is not just a bargain basement honor roll. The five least expensive cities in the top 50—Birmingham, San Antonio, Jacksonville, Memphis, and Norfolk—all missed the top ten for value because executives didn't rate them highly enough on quality.

The two top-ranked cities are once-booming, now-surviving service economy capitals that have always ranked high on FORTUNE's list. Like Atlanta, Dallas Fort Worth is a moderate cost area (16th least expensive) with high crime and poor schools. (Bear in mind that while the MS&B survey encompasses metropolitan areas rather than core cities, problems of those core cities tend to taint the image of an entire area.) One advantage these two share over many cities is familiarity: if you haven't been to a convention in Dallas or Atlanta, you've no doubt passed through their mega-airports.

Another favorable factor: Both places are a little more eager for your business these days, Atlanta having finally been hit by an economic slowdown and Dallas still trying to shake off the Texas crash of the Eighties. "Dallas has been through a gut-wrenching experience, financially and socioeconomically," says Joseph Musolino, vice chairman of NCNB Texas, formerly First Republic. "But now that we're coming out of it we're healthier because we're more linked to the national economy." Vacant office space and stagnant job growth may spell bad news for businesses dependent on the Atlanta or Dallas economies, but to the prospective outsider they spell better value today than in the heady days gone by.

ALREADY headquarters to 19 FORTUNE 500 and Service 500 companies, Atlanta has quieted the competing crowd with several recent monster home runs in the game of economic development. The snaring of the 1996 Summer Olympics has powered a quantum boost in overseas image and should eventually stop Japanese visitors from asking for directions to the casinos (they think they're in Atlantic City).

Several recent corporate headquarters relocations mean cash on the barrelhead today. Holiday Inn's North American operation is shifting to Atlanta from Memphis; Saab is transplanting its U.S. base to Atlanta from Connecticut. Some of the city's most visible existing headquarters companies—Coca-Cola, Turner Broadcasting,

Relaxing after work in the Southern boomtown

Home Depot—have forged ahead or at least held their own in a troubled national economy.

Dallas Fort Worth—home to 31 FORTUNE 500 or Service 500 companies—has in recent years lured J.C. Penney and Exxon headquarters to town, and the city hopes to become the center of Mexican-U.S. trade should a North American free-trade pact become reality. Kent Foster, president of GTE's telephone operations, moved his outfit to the Dallas area in

GTE's Kent Foster in Las Colinas, near the Dallas airport: "It's close to everything—it makes life easy."

1989. "A central geographic location was critical to us," he says, "and the local government leaders here treat you like customers and make sure your needs are met."

BUSINESS MAY love Atlanta and Dallas, but lots of other people don't. For FORTUNE's two top cities, some critics reserve the kind of scorn that New York filmmaker Woody Allen heaps on Los Angeles ("a city where the only cultural advantage is that you can make a right turn on a red light"). To them, such new cities—with all their glass and concrete and sprawl—are formless blobs of synthetic culture, trying but failing to achieve the cultural cohesion of Boston or San Francisco. The *Economist* has called Dallas the ugliest city in North America, while the *Wall Street Journal* characterized Atlanta as "an archipelago of shopping malls and condominiums with an atrophied downtown, snarled traffic, and a fading sense of community."

To which the objects of this spirited derision have responded with even more vigorous boosterism. Atlanta and Dallas are probably the two best image marketers in America. If Atlanta could suck as hard as it can blow, say folks down in the snooty coastal Georgia city of Savannah, it would be a port city. In ultra-smug Austin, *true* Texans would rather listen to the price of oil drop than sit through a presentation by a Dallas booster. Fort Worth says *it* is where the West begins, and Dallas is where the East peters out. Maybe it's the newness of these cities. Their society can be nouveau, pretentious, and tacky, which somehow makes people of old means in genteel, paint-chipped places like Little Rock and the Mississippi Delta feel as though they can look down on them.

All these high-minded knocks on Atlanta and Dallas are fair enough—if you don't have to work for a living. But if you do, few places are more opportune over the long haul. What they lack in refinement, they overcompensate for with energy, mostly directed toward turning a buck. "It's hard to define why a person or a city or a company has charisma," says George Berry, a former Georgia commissioner of industry, trade, and tourism. "But with Atlanta I think it's because folks know this is where you can come and make money. That's what Atlanta represents: success, newness, energy, and the profit motive." Yes, Atlanta and Dallas are synthetic cities, but that is what suits them for the 21st century, in which the economy is certain to be driven by synthetic services supported by such synthetic industries as telecommunications and information technology.

In ultra-smug Austin, *true* Texans would rather listen to the price of oil drop than sit through a presentation by a Dallas booster.

Unlike most major, shall we say organic, cities, which grew up on natural harbors or at intersections of rivers or atop piles of coal and oil, neither Atlanta nor Dallas has the faintest natural raison d'etre. Both sprang up as residue from the currents of commerce. They started as railroad towns: Atlanta was called Terminus because it was where the tracks ended, and local leaders in Dallas paid the railroad to come 40 miles out of its way. Ever since these synthetic beginnings, both cities have been trying to talk the rest of the world into joining them, primarily for the purpose of doing business. As early as 1895—only 30 years after Sherman burned it to the ground—Atlanta attracted 1.9 million people to its own version of a World's Fair, the Cotton States and International Exposition, a far more impressive feat for its day than whatever the 1996 Olympics turns out to be.

TO FEED THE RAILROADS in both cities, highways had to be built, and they were; when interstates came along, Atlanta and Dallas were natural places for them to intersect, and they did, bringing over-the-road trucks with them. Both cities foresaw the future of air travel and built airports that expanded until they redefined the whole concept, becoming—along with Chicago—hubs to which you flew regardless of your final destination. Atlanta is home to Delta, Dallas to American. Southern native son Jimmy Carter deregulated international gateways, and now jumbo jets from Lufthansa, Swissair, KLM, British Airways, JAL, and others swoop down over the piney woods and mesquite prairies onto the runways outside Atlanta and Dallas.

When package delivery giant United Parcel Service set out looking for a new home—driven from Connecticut by housing prices—its choice soon narrowed to three cities: Atlanta, Dallas, and Baltimore. With more than

18,000 commercial air trips a year out of headquarters and expansion designs on the European market, the company calculated that it could save two man-years of travel time annually by picking Atlanta over Dallas/Fort Worth.

In a thorough selection process, 12 top UPS executives took an anonymous tour by chartered plane of the three finalist cities. Then CEO Kent Nelson asked each to give him a written recommendation of his first choice. All 12 chose Atlanta, says Nelson, who admits that his own first choice going into the exercise was Dallas. In the end, he says, "I think it was the trees and the rolling hills. They reminded everybody of Connecticut."

TRAINS AND TRUCKS and planes helped make Atlanta, but as 20th-century industrial evolution softened—and telecommunications links took on the status of railroads in the 19th century—both cities knew instinctively what to do. Atlanta and Dallas have become significant centers for the telecommunications industry, Atlanta in particular. When British Telecom announced it would open a North American unit to serve multinational corporations, it said Atlanta was the logical choice because it has 29 fiber-optic telephone paths, vs. only eight in New York. No problem if they need more: Atlanta is always eager to dig up its streets for progress. It is AT&T's third-largest employment center, with over 19,000 jobs, and is headquarters for Bell South, with more than 11,000. GTE, Sprint, Northern Telecom, and MCI account for another 6,000. Many of the same companies provide thousands of jobs in Dallas as well.

For all its success, Atlanta is annoyed to look over its shoulder and see a smaller, hungrier boomtown springing up in its own image and in its own backyard: Charlotte, N.C. If the MS&B survey turned up any little city that might, this is the one. The fourth-cheapest city in the top ten, Charlotte drew favorable scores from residents and outsiders and beat Atlanta for pro-business attitude.

Once a sleepy stock-car-racing town whose main contribution to American culture was Jim and Tammy Bakker, Charlotte owes much of its current credibility with American business to one man: Hugh McColl, the take-no-prisoners chairman of what will likely become, through Patton-esque takeovers the nation's fourth-largest bank, NCNB (soon to be NationsBank). "McColl's attitude is Charlotte's attitude," says Ray Shaw, the former president of Dow Jones, who moved to Charlotte to run American City Business Journals, a chain of regional business newspapers. "He's tough. He's optimistic. And he knows how to get a job done." Whether by jingoistic design or divine irony, the diminutive, brash Charlottean now controls—and has renamed after his company—two of the banks that were most associated with Atlanta and Dallas in their earlier go-go years: C&S in Atlanta and Republic Bank in Dallas.

In both cities it has been a bitter pill to swallow, this financial colonization by upstart Charlotte. As a lifelong capital colony, Atlanta probably handles the invasion of North Carolina banks with a little more grace than the Texans do. NCNB, Wachovia, and First Union have bought three Atlanta banks, leaving only one locally controlled name-brand bank (SunTrust) and making it tougher for Atlanta to call itself the South's financial capital with a straight face. But at least Atlantans sold their banks more out of greed than desperation. Dallas bankers not long ago were more arrogant than Los Angeles junk bond dealers, and they fell just as hard. Today, incredible as it seems, the Dallas skyline boasts not a single indigenous major bank. Dallasites try to be polite about it, but many still spit sand when they try to say NCNB—much less NationsBank.

For all its old money, the reborn Pittsburgh is focused on economic development and hospitality to outsiders.

No such Johnny-come-lately jealousy has afflicted the banking scene in Pittsburgh, where the name Mellon may not be as catchy as NationsBank but still has quite a bit of what the marketers call trademark equity. Home to two of the nation's top 25 banks and 15 other FORTUNE 500 or Service 500 companies, Pittsburgh has more than its share of weighty corporate cachet: Westinghouse, PPG, H.J. Heinz, Alcoa, Sony, Sony? Yes. After searching the U.S. for a place to build its picture-tube plant, Sony chose Pittsburgh, a city that ranked near the top in nearly every category of the MS&B survey—availability of high-quality labor, pro-business attitude, education, affordable housing, overall satisfaction of its residents. The category where it ranked poorly was effect of a city on a company's image.

NCNB's Hugh McColl has altered Charlotte's skyline and attitudes.

AND FOR THOSE who remember the smoky, carbon-black, shot-and-beer steel town of just a little more than a decade ago—the one Frank Lloyd Wright recommended abandoning—no image could be more out of date. For starters, today's Pittsburgh is actually beautiful. Its sturdy old skyline is nicely complemented by a restrained new one. Framed as it is by Mount Washington and the watery conflux where the Monongahela and the Allegheny form the Ohio, the downtown is one of America's most European in appearance. When the city

Pittsburgh plays up high tech, like Carnegie Mellon's robots . . .

was in danger of going to its grave with the steel industry in the early Eighties, the town's venerable old-money crowd dug into its deep foundation pockets and made sure that Pittsburgh emerged as an American city with a first-rate quality of life.

"I think the Nineties are going to be the era of the big little city," says Frank Cahouet, chairman and CEO of Mellon Bank and a transplanted California banker from Security Pacific and Crocker. "Pittsburgh is an appealing place to live because it has the amenities of a small city but the cultural benefits and business environment of a lot of large cities."

Cahouet and others stress that, for all its old money, the reborn Pittsburgh (pop. two million) is focused on economic development and the hospitality to outsiders that game requires. "We lost 60% of our industrial base and more than 100,000 heavy manufacturing jobs," recalls Wesley von Schack, chairman and CEO of Duquesne Light Co., Pittsburgh's electric utility. He moved there from Vermont in 1984. "With those kinds of numbers it wasn't hard to get people focused on economic development." Drawing heavily on the technical resources of Carnegie Mellon University and the University of Pittsburgh, the city has rebuilt employment around high-tech manufacturing, medical, and biotechnology jobs. The city is happy with modest growth. Von Schack says, "If you don't boom, you don't bust."

Similarly conservative views prevail in Kansas City. Another more traditional burg, its survey results reveal an extraordinary gap between the way resident executives feel about it (they *love* it) and the opinions of outsiders (it doesn't come up much). "Kansas City doesn't brag. It's a quiet town, gentle, not pushy," says Betsey Solberg, executive vice president of Fleishman-Hillard, a public relations firm. If that sounds a little like a Hallmark greeting card, well, Hallmark is the town's biggest privately owned employer and one of the companies that call the shots. Another is Marion Merrell Dow laboratories, the pharmaceutical giant partly created by self-made billionaire Ewing Kauffman, or "Mr. K.," who owns the Royals baseball team and heads a foundation that supports drug prevention programs, stay-in-school projects, self-esteem courses, and more than 1,000 disadvantaged students in college.

"All kinds of businesses are welcome here," says Kauffman, "as long as they learn the principles of social responsibility under which we operate. A corporation owes more to the community than just jobs. To be specific, 3% of their profits should go to charity. Things come up that need attention. Social problems, floods. Business has to do its part, and here we do. We've got the Hall Family Foundation [started by the owners of Hallmark], the H&R Block Foundation, and the Greater Kansas City Community Foundation." Kauffman says he's "especially proud of the voters of Kansas City [70% white] for electing a black mayor" and helping bring the community together.

That mayor, Emanuel Cleaver, says, "We're the only major city that's really out front struggling to do something about public education." The claim may be hyperbole, but K.C. is certainly the only city in the country investing some $600 million in capital improvements to its inner-city school system. And even though the expenditures were ordered by a federal court in a desegregation suit brought by Cleaver and others before he became mayor, the initial results are eye-popping. The brand-new $32 million Central High School, built in an inner-city black neighborhood, attracts a student body that is 25% white. The magnet school offers a computer for every student, robotics training, the largest indoor swimming pool in Missouri, and a Jesuit-inspired curriculum that includes Greek, Latin, and Olympic sports training. With the school just opened, it's too early to judge results.

Transplants to Kansas City love to talk about the work ethic. "I've worked on both coasts and in Atlanta," says Tom Sprott, a general manager for IBM, "and I've never seen the values toward getting the job done that I see here. There's really no compari-

. . . while Kansas City offers robotics study and much else in an impressive new inner-city school.

son." Kansas City has suffered labor problems in the past, but Bob Dineen, president of Marley Co., which has plants in Louisville, Memphis, Houston, and other cities, says, "That labor reputation is 15 years out of date. We have fewer problems here than anywhere else. You get a full day's work in Kansas City."

Each of FORTUNE's remaining top ten brings to the table a different combination of attributes that add up to value:

- Phoenix is strategically located near the dense Southern California market and offers a high-quality work force at much lower costs than California.
- Orlando is relatively inexpensive, right in the center of one of the country's fastest-growing markets.
- Austin is the least expensive of the top ten and has the most relaxed lifestyle. Though somewhat isolated, its high-tech orientation and the University of Texas make it attractive for a variety of technology operations.
- Salt Lake City continues to enjoy an excellent reputation for its labor force along with low costs and a notably low crime rate.
- Nashville is perhaps the sleeper on the list, a newcomer to the top ten and a city likely to take off in years to come. Why? "Location, location, location," says MS&B's Karen Gerard. "It is well positioned to serve markets in the South, Midwest, and East; three interstate highways intersect there, and it is developing into a major hub for American Airlines."

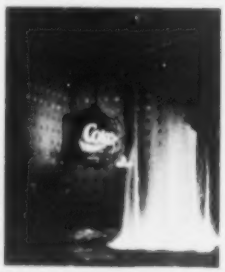
Nashville is perhaps the sleeper on the list, a newcomer to the top ten and a city likely to take off.

The new emphasis on value should not suggest that American business is on the verge of abandoning all its traditional capitals. New York, through a combination of size, culture, and concentration of power, remains America's one true international city and a bargain compared with Tokyo, Paris, and several others. Los Angeles is the world's entertainment capital and retains important ties to Mexico and the Pacific Rim. San Francisco, if you can afford it, offers an alluring blend of charm and metropolitan sophistication. Like England, there will always be a Boston. For a true metropolis with a central location, Chicago is top dog. For Latin America, fly Miami. But in the cost-conscious Nineties, the top ten for value will continue to give all of these cities, and each other, a good run for their money. F

THE TOP TEN CITIES

Rankings on access to quality labor and on pro-business attitude come from Moran Stahl & Boyer's survey of executives in America's 50 largest metropolitan areas. A rank of 1 is best, and 50 the worst; duplicate rankings reflect ties. We and MS&B conducted extensive interviews and visits. The average U.S. manufacturing salary is $26,700; for clerical jobs it is $18,600. The average lease rate in the surveyed cities is $21.25 per square foot.

1 ATLANTA



The most famous employer

Population 1991	2,913,797
Office lease rate	$23.50
Tax rates (max. corp. income / max. personal income)	6% / 6%
Average salaries (manufacturing / clerical)	$27,000 / $19,900
Access to quality labor	rank 17
Pro-business attitude	rank 2

The bad news: For a change, Atlanta is actually experiencing ill effects from the national economy, the worst blow having come with the shutdown of Eastern Airlines, a provider of 10,000 jobs. The good news: The slowdown makes the city more of a value than ever for business. Class A office space is abundant, and a bunch more is about to hit the market. The price of traditional luxury houses is soft; UPS says housing is roughly half what it costs in Connecticut. Air access is excellent but not cheap. Atlanta is a natural choice for reaching regional markets, and all those young workers who have flocked to the Southern boomtown still need jobs to make BMW payments. Suburban schools are fine, but many execs in the city choose private education for their kids. Crime is high. Golf is great. Atlanta has more trees than any other major city.

2 DALLAS/ FORT WORTH

Las Colinas

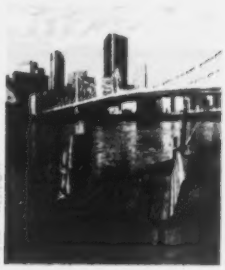
Population 1991	3,973,542
Office lease rate	$18
Tax rates (max. corp. income / max. personal income)	* / None
Average salaries (manufacturing / clerical)	$29,300 / $19,500
Access to quality labor	rank 4
Pro-business attitude	rank 13

If you can't find a good deal on office space in Dallas/ Fort Worth, you shouldn't be allowed to go to the grocery store alone. Things are stabilizing after the real estate and banking crash of the Eighties, but the city has a ton of office space and housing left on its plate. Negotiate, negotiate, negotiate. As with Atlanta, crime and schools are rough in the city, okay in the suburbs. Also like Atlanta, Dallas Ft. Worth offers terrific air access and a natural hub for regional markets. No personal income taxes steal bites from the pie. Texans score high for "pro-bidness" attitude and have lately added humility to the mix. As Dallas/ Ft. Worth recovers, it is building a diversified service economy tied more to the nation's than to the state's energy cycle, and it is well situated for Mexican-American commerce should North American trade barriers fall.

SOURCES: Reg. National Planning Data Corp. (major cities, or central business districts, Comparative Statistics of Industrial and Office Real Estate Markets, tax rates, Commercial Clearing House, wages for manufacturing, County Business Patterns, wages for clerical); BLS

*Texas imposes a franchise tax based on net worth and profits.

3 PITTSBURGH



Actually beautiful

Population 1991	2,043,118
Office lease rate sq. ft.	$20
Tax rates max. corp. income	12.25%
max. personal income	5.98%
Average salaries manufacturing	$30,300
clerical	$18,000
Access to quality labor rank	4
Pro-business attitude rank	8

The Lazarus of American cities, Pittsburgh has everything going for it but an up-to-date image. Low crime, high-quality public education, and a skilled work force add up to one of the very best values for business—especially among older cities outside the Sunbelt. Carnegie Mellon University helps attract businesses in the biotech industry. A good work ethic and a central location are especially appealing to light manufacturers such as Sony, which chose Pittsburgh as the site for its North American picture tube factory. Housing is a bargain, air is clean, and commutes are short. Cultural institutions stay healthy with heavy involvement from the old-line corporate community. Something that wouldn't happen in Atlanta: When a new building replaced Forbes Field, the outfield wall and home plate were preserved.

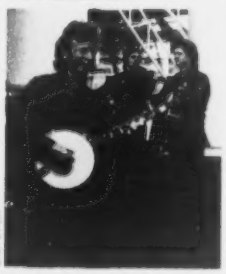
4 KANSAS CITY

World-class barbecue

Population 1991	1,586,993
Office lease rate sq. ft.	$19
Tax rates max. corp. income	6%
max. personal income	7%
Average salaries manufacturing	$28,100
clerical	$18,100
Access to quality labor rank	1
Pro-business attitude rank	10

Of all the top ten cities, Kansas City is the most beloved by its own resident executives, who rate it high in virtually every category: tax structure, labor costs, quality of labor, housing costs. Its central location appeals to many, but air connections could be better. Hallmark, one of the biggest games in town, and Marion Merrell Dow pharmaceuticals, another heavy hitter, are both strongly committed to civic involvement. Kansas City has more of a story to tell than most when it comes to the plight of its inner-city schools: it is spending $600 million to rebuild the whole system, bringing computers and exotic curricula to the ghetto. A black mayor, elected by a white majority, has launched a new era of race relations. The city deserves its reputation for great food, especially steaks and barbecue.

5 NASHVILLE



Music at the airport

Population 1991	1,003,474
Office lease rate sq. ft.	$21.50
Tax rates max. corp. income	6%
max. personal income	6%*
Average salaries manufacturing	$24,300
clerical	$18,300
Access to quality labor rank	7
Pro-business attitude rank	4

Location. Location. Location. Nashville's got it, and it is beginning to pay off. On the important criterion of proximity to markets, Nashville ranked No. 1 in the top ten. It's convenient to the South, the Midwest, and much of the Eastern seaboard. American Airlines operates a growing hub out of the city, giving it the potential to challenge Atlanta and Dallas for ease of transportation. The quality of the work force ranks high, which was instrumental in decisions by Nissan and GM's Saturn division to locate auto plants in the vicinity. Those workers command high pay. Nashville would like to build on its sizable health care industry and nurture a budding telecommunications sector. City business promoters have only recently decided to play up, rather than distance themselves from, its predominant image worldwide: Music City USA.

*Tax on unearned income.

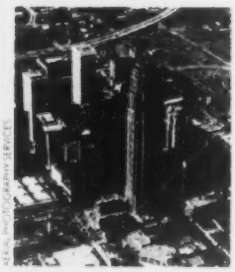
6 SALT LAKE CITY

In Temple Square

Population 1991	1,084,847
Office lease rate sq. ft.	$18
Tax rates max. corp. income	5.0%
max. personal income	7.2%
Average salaries manufacturing	$24,300
clerical	$16,700
Access to quality labor rank	2
Pro-business attitude rank	13

Everything is still clean, high quality, safe, and inexpensive in Salt Lake City, an unmistakable location of great value with a bonus for skiers—city buses go to several resorts. Taxes are moderate, literacy is extraordinarily high, crime is low, and one of America's most qualified work forces takes home wages below the national average. Nor is the place as isolated as everyone seems to think: it is within 850 miles of Phoenix, Denver, Seattle, and all major California cities, and a Delta hub gives the city more flights than most cities its size. Highways are excellent and housing costs attractive. Downsides? Utah boasts only three FORTUNE 500 headquarters, so you have to catch other execs visiting on holiday. And some residents report that Salt Lake's Mormon influence can be a bit much for the secular community.

7 CHARLOTTE, NORTH CAROLINA



The NCNB tower

Population 1991	1,184,099
Office lease rate	$18.75
Tax rates max corp. income	7.00%
max personal income	7.75%
Average salaries manufacturing	$21,900
clerical	$18,500
Access to quality labor rank	14
Pro-business attitude rank	1

What this upstart North Carolina city lacks in polish it makes up for in one all-important intangible: pro-business attitude, a category in which it ranks first, even ahead of Atlanta. Like Atlanta and Dallas, Charlotte suffers from high crime and public education woes. But thanks largely to the efforts of NCNB's acquisitive CEO, Hugh McColl, the city is gaining a reputation as a financial center that is eclipsing Atlanta's. Low manufacturing wages —a reflection of the area's furniture- and textile-making past—are attractive to industry. The city stresses its quality of life, but a major threat to that quality looms: traffic. For some reason this stock-car-racing town hasn't built an adequate highway system. Like some other smaller cities, Charlotte has a terrific back-office reputation, which helps attract such newcomers as Hearst Magazines' accounting operations.

8 ORLANDO, FLORIDA

A tourism juggernaut

Population 1991	1,110,442
Office lease rate	$21.25
Tax rates max corp. income	5.5%
max personal income	None
Average salaries manufacturing	$25,400
clerical	$17,300
Access to quality labor rank	36
Pro-business attitude rank	10

Relatively inexpensive and smack in the center of one of the country's fastest-growing markets, Orlando is Florida's boomtown answer to Atlanta and Dallas. Like the Sunbelt's big two, Orlando has convenient air service, and the reason is obvious: Disney World is America's No. 1 tourist destination. After pausing for the recession, this tourism juggernaut is expected to keep right on exploding. Wages are below the U.S. average, and, as in all of Florida, there's no personal income tax. Success has its price: Orlando ranks worst in the top ten for traffic problems. It also ranks low for cultural activities and presence of quality universities, but the Florida lifestyle gets big points. The city is a short drive from the beach and is surrounded by natural lakes and citrus groves, now transforming into residential communities.

9 AUSTIN, TEXAS

The Capitol

Population 1991	802,413
Office lease rate	$16
Tax rates max corp. income	*
max personal income	None
Average salaries manufacturing	$29,500
clerical	$17,000
Access to quality labor rank	24
Pro-business attitude rank	13

The smallest and least expensive of the top ten cities, Austin is a bit isolated and in a category of its own. Its casual Hill Country lifestyle is legendary. While lacking some elements of traditional business locations—such as proximity to markets—it has become something of an alternative Silicon Valley. Many major names—IBM, Motorola, Apple, Advanced Micro Devices, Texas Instruments—are represented there, as are hundreds of entrepreneurial high-tech companies nurtured by the University of Texas's Austin Technology Incubator. MCC and Sematech, two high-tech consortia, also call Austin home. In addition to Lake Travis, country music, and barbecue, Austin (like the rest of Texas) demands no personal income tax. A major drawback: The city lacks good nonstop airline service to many other key cities.

10 PHOENIX

Gateway Center

Population 1991	2,183,438
Office lease rate	$20
Tax rates	9.3%
	7.0%
Average salaries manufacturing	$27,700
clerical	$17,800
Access to quality labor rank	7
Pro-business attitude rank	21

Phoenix offers a combination of particularly high-quality labor at near-average costs; unionization is notably low. It boasts good schools and a large community college system to train workers. As in Atlanta and Dallas, office space is plentiful and inexpensive in the wake of Eighties overbuilding. The city is strategically located near the dense and lucrative Southern California market, but it is beginning to suffer from some of the same urban problems: traffic, air pollution, urban sprawl. New freeway construction has eased traffic, but water shortages could eventually stunt growth. When problems come up, Phoenicians like to talk about the weather: On average the sun shines 85% of daylight hours, and the average annual temperature is 72° F., which explains the proliferation of golf and other resorts.

*Texas imposes a franchise tax based on net worth and profits.

THE REST OF THE MAJOR CITIES

ALBANY, NEW YORK

State government is still about the only game in town in this Northeastern city. No wonder it's not the best place for value; clerical wages are relatively high, and manufacturing wages are above the U.S. average. Still, companies looking for attractive office lease rates may want to consider New York's capital. The well-regarded state university and a strong public school system contribute to a highly skilled labor pool.

Population 1991	878,977
Office lease rate (sq. ft.)	$16.50
Tax rates (max. corp. income / max. personal income)	9.00% / 7.88%
Average salaries (manufacturing / clerical)	$27,300 / $21,500
Access to quality labor (rank)	7
Pro-business attitude (rank)	28

BALTIMORE

Costs are a bit high compared with the national average but lower than those in other Eastern seaboard cities, making Baltimore a candidate for companies needing a site in the Washington–New York City corridor. Clerical wages hover near the U.S. average, and manufacturing wages slightly outpace the average. There's room for improvement: Survey respondents ranked Baltimore near the bottom for public education.

Population 1991	2,406,138
Office lease rate (sq. ft.)	$24.50
Tax rates (max. corp. income / max. personal income)	7.0% / 7.5%
Average salaries (manufacturing / clerical)	$28,800 / $18,800
Access to quality labor (rank)	24
Pro-business attitude (rank)	36

BIRMINGHAM, ALABAMA

For value, Birmingham has good numbers but a tarnished reputation. It is the lowest-cost city for business among America's 50 largest. Yet local survey respondents said it has the worst effect of any on a company's image. Once a one-industry town dominated by steel, Birmingham is trying to make a name as a medical center; Bo Jackson had hip surgery there. It also seeks finance-related business and telecommunications.

Population 1991	913,021
Office lease rate (sq. ft.)	$16.75
Tax rates (max. corp. income / max. personal income)	5% / 6%
Average salaries (manufacturing / clerical)	$23,100 / $16,500
Access to quality labor (rank)	48
Pro-business attitude (rank)	34

BOSTON

Time for another Boston tea party? Taxes are high, and no self-respecting business could pick Boston on the basis of cost. In addition to Massachusetts's well-known fiscal troubles, wages are lofty, and so are office lease rates and housing and facility costs. Boston is second to none for world-renowned colleges and universities, which translate into a highly educated work force. An attractive city, if you feel like paying for it.

Population 1991	3,108,786
Office lease rate (sq. ft.)	$29
Tax rates (max. corp. income / max. personal income)	9.50% / 5.95%
Average salaries (manufacturing / clerical)	$30,700 / $20,300
Access to quality labor (rank)	4
Pro-business attitude (rank)	40

BUFFALO

Troubled by a poor image and 20 years of population decline, Buffalo has nonetheless made something of a comeback. Employment in the service sector is growing, and the Canada free-trade pact has lured some new commerce to this near-the-border town. Still, before many companies shuffle here, the city will have to improve management-labor relations and its attitude toward business. It can't do much about New York taxes.

Population 1991	965,635
Office lease rate (sq. ft.)	$20
Tax rates (max. corp. income / max. personal income)	9.0% / 7.7%
Average salaries (manufacturing / clerical)	$28,200 / $16,300
Access to quality labor (rank)	30
Pro-business attitude (rank)	48

CHICAGO

It's a wonderful town even if it is windy, say those who need a Midwest presence. But costs are high. Clerical and manufacturing wages are above the U.S. average, and office lease rates are among the highest in the surveyed cities. Chicago is close to many important markets, though; it remains a vast transport hub. It also offers well-trained labor. Companies based there like it and ranked it No. 4 for providing overall satisfaction.

Population 1991	6,085,423
Office lease rate (sq. ft.)	$34.25
Tax rates (max. corp. income / max. personal income)	6.5% / 2.5%
Average salaries (manufacturing / clerical)	$29,200 / $19,700
Access to quality labor (rank)	3
Pro-business attitude (rank)	30

CINCINNATI

Procter & Gamble still dominates its hometown, but the Queen City has diversified into an office center and boasts attractive lease rates near the survey average. Cincinnati ranked No. 8 in overall satisfaction and scored high for business involvement in the community. Despite the furor over the exhibit of Robert Mapplethorpe photographs, Cincinnati has a lively cultural life. Public education gets poor marks.

Population 1991	1,461,573
Office lease rate (sq. ft.)	$22
Tax rates (max. corp. income / max. personal income)	11% / 9%
Average salaries (manufacturing / clerical)	$30,000 / $17,700
Access to quality labor (rank)	18
Pro-business attitude (rank)	31

CLEVELAND

The population is declining, but Cleveland is no longer the mistake on the lake. It boasts a revitalized riverfront with trendy shops and restaurants. New buildings rising downtown mean lease rates are slightly below average and will be for a while. Blue-collar wages exceed the average, but clerical rates fall just below. The city wins loud applause for the arts, including its ballet, an art museum, and a legendary orchestra.

Population 1991	1,826,139
Office lease rate (sq. ft.)	$20
Tax rates (max. corp. income / max. personal income)	10.9% / 8.9%
Average salaries (manufacturing / clerical)	$30,400 / $18,100
Access to quality labor (rank)	18
Pro-business attitude (rank)	13

COLUMBUS, OHIO

Columbus is not a particularly cheap place to do business, but locals love it and don't want to leave. It lacks the union-dominated heritage of such older Ohio cities as Cincinnati and Cleveland, and the state capital is a university and financial center without Boston's exorbitant costs. Office lease rates in the new downtown, which saw a lot of construction in the 1980s, are slightly below average. A new downtown mall, City Center, is a hit.

Population 1991	1,395,498
Office lease rate	$20.50
Tax rates max corp. income	10.9%
max personal income	8.9%
Average salaries manufacturing	$28,800
clerical	$17,600
Access to quality labor rank	30
Pro-business attitude rank	10

DAYTON

This manufacturing area, birthplace of the cash register and NCR, is trying to diversify by courting service, high-tech, and aerospace companies. Reasonable office lease rates should help. Nearby Wright-Patterson Air Force Base is the area's largest employer and growing as the Air Force consolidates resources there. An auto town with high manufacturing wages but below-average clerical wages, it ranks low on public education.

Population 1991	956,290
Office lease rate	$17.75
Tax rates max corp. income	11.15%
max personal income	9.15%
Average salaries manufacturing	$32,300
clerical	$17,400
Access to quality labor rank	36
Pro-business attitude rank	36

DENVER

Attractively low office lease rates—38% below average—show that the Mile-High City hasn't fully recovered from the energy slump. Companies that need an impressively educated labor force would do well to look here at the edge of the Rockies, where many workers are underemployed. But they don't come cheap; wages are above average. Denverites love their city for its superb access to sports and outdoor recreation.

Population 1991	1,633,348
Office lease rate	$13.25
Tax rates max corp. income	5.2%
max personal income	5.0%
Average salaries manufacturing	$30,800
clerical	$19,100
Access to quality labor rank	39
Pro-business attitude rank	31

DETROIT

The Motor City just can't shake its image as a depressed one-industry town, and its costs discourage newcomers. A low maximum corporate income tax rate isn't enough of a lure. Neither are cheap lease rates, 20% below average, because of the inner city's deterioration. Wages in manufacturing are the highest in the top 50 cities. Ranked last for business involvement in the community, Detroit needs help from corporate leaders.

Population 1991	4,383,929
Office lease rate	$17
Tax rates max corp. income	4.35%
max personal income	7.60%
Average salaries manufacturing	$36,800
clerical	$19,500
Access to quality labor rank	45
Pro-business attitude rank	46

GREENSBORO, NORTH CAROLINA

With business-pleasing low city and state taxes, this old textile town might be the place to unroll your carpet. Costs overall are moderate, and the quality of life is high. Manufacturing and clerical wages are below average, lease rates and facility costs are low, the crime rate is too, and business involvement in the community is vigorous. Local executives gave it the survey's highest marks on the criterion of a fair regulatory environment.

Population 1991	952,688
Office lease rate	$16.50
Tax rates max corp. income	7.00%
max personal income	7.75%
Average salaries manufacturing	$22,300
clerical	$18,500
Access to quality labor rank	24
Pro-business attitude rank	13

HARTFORD

Insurance industry woes and state fiscal problems have dealt a double blow to Hartford, the smallest of the surveyed cities. Costs are high. Lease rates and manufacturing wages are above the study average, the corporate income tax is stiff, and a state personal income tax has just taken effect—although angry citizens could get it repealed. Ranked last for a pro-business attitude and in the bottom ten on access to well-trained labor.

Population 1991	773,015
Office lease rate	$25.50
Tax rates max corp. income	11.5%
max personal income	4.5%
Average salaries manufacturing	$30,500
clerical	$19,600
Access to quality labor rank	45
Pro-business attitude rank	50

HOUSTON

It's still got that oilman image, but Houston is recovering and has made important strides in diversifying into high-tech and medical industries. Like other Texas locations, it has no personal income tax. Low office lease rates, a sign that Houston hasn't rebounded fully from the overbuilt Eighties, entice outsiders. Give it big points for pro-business attitude and Texas-size business involvement in the community.

Population 1991	3,324,724
Office lease rate	$15.50
Tax rates max corp. income	*
max personal income	None
Average salaries manufacturing	$31,300
clerical	$19,300
Access to quality labor rank	14
Pro-business attitude rank	8

*Texas imposes a franchise tax based on net worth and profits.

INDIANAPOLIS

You might think Indy 500, but increasing numbers of businesses think of back offices when they consider this capital, no longer Indiana-no-place. Lease rates are below average, as are clerical wages, although manufacturing wages are higher. Business leaders play an important role in this community. In the survey it fared poorly only for its lack of a well-developed mass-transit system—no surprise, perhaps, in a city that adores a fast car.

Population 1991	1,262,006
Office lease rate	$19.75
Tax rates max corp. income	7.9%
max personal income	4.4%
Average salaries manufacturing	$29,400
clerical	$17,300
Access to quality labor rank	30
Pro-business attitude rank	4

JACKSONVILLE, FLORIDA

■ Trying to leave its Navy past in the water and attract new business, Jacksonville is attracting service industries, especially back-office operations. It's where American Express, Merrill Lynch, and other major companies process paper. The town boasts low housing costs, wages, and lease rates. Like all Florida cities, it levies no personal income tax. But this port city lacks cultural activities, and it needs to spit-and-polish its image.

Population 1991	927,850
Office lease rate (sq ft)	$19.50
Tax rates (max corp income / max personal income)	5.5% / None
Average salaries (manufacturing / clerical)	$23,700 / $18,300
Access to quality labor (rank)	35
Pro-business attitude (rank)	13

LOS ANGELES

■ The City of Angels could use some divine intervention. It suffers from overgrowth, high costs, and a thicket of state regulations, particularly environmental. Manufacturers are fleeing, many to such places as Nevada, Arizona, and Texas. Office lease rates are high, as are housing and facility costs. Efficient highways? L.A. ranks last in the survey. On the sunny side, consider its strengthening economic ties to Mexico and the Pac Rim.

Population 1991	9,011,205
Office lease rate (sq ft)	$28
Tax rates (max corp income / max personal income)	9.30% / 10.05%
Average salaries (manufacturing / clerical)	$27,500 / $22,200
Access to quality labor (rank)	24
Pro-business attitude (rank)	40

LOUISVILLE, KENTUCKY

■ Not well known among outsiders, the Louisville area is diversifying, and locals praise the quality of life. It is home to seven distilleries for bourbon and other spirits and to Humana's health care headquarters, GE operations, and headquarters of KFC (formerly Kentucky Fried Chicken). Office lease rates are below average, housing is moderately priced, and companies appreciate the area's pro-business attitude.

Population 1991	953,260
Office lease rate (sq ft)	$16
Tax rates (max corp income / max personal income)	10.45% / 8.20%
Average salaries (manufacturing / clerical)	$28,500 / $16,600
Access to quality labor (rank)	39
Pro-business attitude (rank)	4

MEMPHIS

■ Low-cost Memphis wants to enter the big leagues as a competitor for Southeastern businesses. As home to Federal Express, it is already a huge distribution center. Wages, office lease rates, and facility costs are low; so is the city's overall satisfaction ranking. High-quality labor is hard to find, although the new mayor promises to strengthen city schools. Aside from a trip to Graceland, there's not a lot of culture.

Population 1991	991,935
Office lease rate (sq ft)	$14
Tax rates (max corp income / max personal income)	6% / 6%*
Average salaries (manufacturing / clerical)	$24,000 / $17,300
Access to quality labor (rank)	49
Pro-business attitude (rank)	21

*Tax on unearned income.

MIAMI/FORT LAUDERDALE

■ Gateway to Latin America, Miami offers moderate costs but a less than sunny image. Crime is high, and in overall satisfaction the city ranks 37th. Quality of the labor force is low, but then so is the cost: Manufacturing wages are the lowest of the 50 metro areas. Nearby Fort Lauderdale enjoys some of the benefits without all Miami's drawbacks. Seeking more business travelers, it has a new convention center facing the port.

Population 1991	3,247,062
Office lease rate (sq ft)	$30
Tax rates (max corp income / max personal income)	5.5% / None
Average salaries (manufacturing / clerical)	$19,200 / $18,400
Access to quality labor (rank)	39
Pro-business attitude (rank)	21

MILWAUKEE

■ Yes, beer made Milwaukee famous, but machinery is the biggest industry. Manufacturing wages are slightly above average—Milwaukee was always a union town—as are office lease rates. Ranked No. 22 on overall satisfaction, the city scores poorly for the effect it has on a business's image. But residents enjoy moderate housing costs and have access to a wide range of sporting and recreational activities, particularly on Lake Michigan.

Population 1991	1,439,264
Office lease rate (sq ft)	$23
Tax rates (max corp income / max personal income)	7.90% / 6.93%
Average salaries (manufacturing / clerical)	$28,500 / $17,900
Access to quality labor (rank)	18
Pro-business attitude (rank)	34

MINNEAPOLIS ST. PAUL

■ The Twin Cities offer well-educated employees with a strong work ethic, which helped the area rank No. 2 in MS&B's survey last year, when the emphasis was on quality labor. It doesn't fare as well with the focus on value. Corporate and personal income taxes are high, as are lease rates. Pro-business attitude is poor, but companies are deeply involved in the community. Many give at least 2% of pretax profits to charities.

Population 1991	2,504,919
Office lease rate (sq ft)	$26.75
Tax rates (max corp income / max personal income)	9.8% / 8.5%
Average salaries (manufacturing / clerical)	$32,000 / $18,200
Access to quality labor (rank)	18
Pro-business attitude (rank)	45

NEW ORLEANS

■ Mardi Gras land is inexpensive but suffers from a hangover. Office lease rates are notably low, and wages are near the average, yet the city ranked last on overall satisfaction, last on availability of high-quality labor, and last on public education. Not a single respondent in the survey mentioned it as the best city in which to operate a business—the only place to get no votes at all. Respondents also worry about crime.

Population 1991	1,232,972
Office lease rate (sq ft)	$14.50
Tax rates (max corp income / max personal income)	8% / 6%
Average salaries (manufacturing / clerical)	$27,000 / $17,900
Access to quality labor (rank)	50
Pro-business attitude (rank)	45

NEW YORK CITY

■ The Big Apple is superlative in many ways, including cost: It is America's most expensive place to do business. Tax rates are the highest, and so are office lease rates. It ranked poorly on most other cost measures as well as on crime and pro-business attitude. But in certain industries—media, the arts, investment banking—it remains top of the heap. With recent layoffs, such as those on Wall Street, high-quality labor is easy to find.

Population 1991		8,572,593
Office lease rate	sq ft	$39.25
Tax rates	max corp income	17.85%
	max personal income	12.25%
Average salaries	manufacturing	$27,700
	clerical	$22,500
Access to quality labor	rank	7
Pro-business attitude	rank	42

NORFOLK, VIRGINIA

■ Population is growing in this Navy-dominated area, which is beginning—but just beginning—to earn some respect as a low-cost, high-quality place for business. It gets low marks for the effect of the city's name on business image. Clerical wages are the lowest of the 50 cities, due in part to the large number of spouses at the military bases. The only FORTUNE 500 or Service 500 company: Norfolk Southern, the railroad.

Population 1991		1,423,207
Office lease rate	sq ft	$19.75
Tax rates	max corp income	6.00%
	max personal income	5.75%
Average salaries	manufacturing	$24,800
	clerical	$15,900
Access to quality labor	rank	30
Pro-business attitude	rank	25

OKLAHOMA CITY

■ Oklahoma's capital is trying to diversify after being sapped by the energy slump. Billing itself as "America's back-office frontrunner," it offers low costs of labor, facilities, and housing. The city and state operate some of the country's best job training programs and adult education courses, and the area is home to many colleges and universities. There's not much culture beyond the National Cowboy Hall of Fame.

Population 1991		957,776
Office lease rate	sq ft	$16.50
Tax rates	max corp income	6%
	max personal income	7%
Average salaries	manufacturing	$25,900
	clerical	$16,300
Access to quality labor	rank	14
Pro-business attitude	rank	28

PHILADELPHIA

■ The City of Brotherly Love still suffers from the image of an old, worn-out town but is promoting itself as the cutting-edge location for biomedical and pharmaceutical companies, many of which are already there. These companies attracted $16 billion of revenue last year and employ more than 50,000. Philly has moderate wages, housing costs, and office lease rates. Local executives rated it poorly on overall satisfaction.

Population 1991		4,887,417
Office lease rate	sq ft	$23.50
Tax rates	max corp income	12.25%
	max personal income	8.06%
Average salaries	manufacturing	$28,100
	clerical	$18,600
Access to quality labor	rank	24
Pro-business attitude	rank	46

PORTLAND, OREGON

■ Local executives like this West Coast city, ranking it fourth for overall satisfaction. In at least one way it resembles New England, from which its settlers came (and named it Portland instead of Boston by a coin toss): City and state taxes are high enough to worry about, even if Oregon doesn't have a sales tax. Portland ranked third for quality public education and is more environmentally pristine than California.

Population 1991		1,256,296
Office lease rate	sq ft	$20.25
Tax rates	max corp income	6.60%
	max personal income	9.62%
Average salaries	manufacturing	$26,600
	clerical	$18,600
Access to quality labor	rank	18
Pro-business attitude	rank	36

RICHMOND

■ This moderate-cost city, the capital of the northernmost right-to-work state, gets less attention than it should. Clerical wages are low, while manufacturing wages are high, thanks mainly to the tobacco industry. The city continues to develop as a financial and office center. It is home to 13 FORTUNE 500 and Service 500 companies. Richmond scores well for its lack of environmental problems and stable fiscal situation.

Population 1991		878,268
Office lease rate	sq ft	$21.50
Tax rates	max corp income	6.00%
	max personal income	5.75%
Average salaries	manufacturing	$30,800
	clerical	$16,900
Access to quality labor	rank	36
Pro-business attitude	rank	25

ROCHESTER, NEW YORK

■ Costs are on the high side and the climate is cold, but Rochester offers several attractions if you like the Northeast. Respondents ranked it No. 3 for high-quality public education, which contributes to an excellent labor force. It is home to two top universities. Office lease rates are below average, but manufacturing wages are among the highest around, in part due to established major employers such as Eastman Kodak.

Population 1991		1,005,984
Office lease rate	sq ft	$19.50
Tax rates	max corp income	9.00%
	max personal income	7.88%
Average salaries	manufacturing	$32,500
	clerical	$21,500
Access to quality labor	rank	7
Pro-business attitude	rank	13

SACRAMENTO, CALIFORNIA

■ California's capital, jokingly called Sacra-tomato because it's in farm country, boasts lower labor costs than some major California cities—yet these and office lease costs are still at or above the national average. Skiing in Lake Tahoe and big-city shopping in San Francisco are only two-hour drives from Sacramento. Losing its hick image, the city gets good marks for its education system and availability of high-quality workers.

Population 1991		1,524,017
Office lease rate	sq ft	$27
Tax rates	max corp income	9.3%
	max personal income	9.3%
Average salaries	manufacturing	$26,700
	clerical	$21,500
Access to quality labor	rank	7
Pro-business attitude	rank	36

ST. LOUIS

Here's one to watch. Ranked No. 8 for overall satisfaction, St. Louis features clerical wages below average and fairly low taxes. Manufacturing wages are high, driven up by the area's many large, old-line manufacturers, including Anheuser-Busch, McDonnell Douglas, Monsanto, Ralston Purina, and other FORTUNE 500 companies. Located near the country's center, it is a hub of transportation by air, water, and rail.

Population 1991		2,458,269
Office lease rate	sq. ft.	$25
Tax rates	max. corp. income	6.5%
	max. personal income	7.0%
Average salaries	manufacturing	$31,100
	clerical	$17,400
Access to quality labor	rank	18
Pro-business attitude	rank	21

SAN ANTONIO

The second-least-expensive city (after Birmingham) among the top 50, San Antonio is well suited for assembly operations and back-office work, which it is trying to lure. Wages are below average, and office lease rates are near rock bottom. Like other Texas cities, San Antonio levies no personal income tax, nor does the state. Housing costs are low. This out-of-the-way city scored poorly in the survey on proximity to markets.

Population 1991		1,325,003
Office lease rate	sq. ft.	$13.50
Tax rates	max. corp. income	*
	max. personal income	None
Average salaries	manufacturing	$19,500
	clerical	$16,600
Access to quality labor	rank	30
Pro-business attitude	rank	13

*Texas imposes a franchise tax based on net worth and profits.

SAN DIEGO

Like Price Club, the booming warehouse chain whose parent is based here, San Diego attracts lots of people for the relatively low costs. Facility expenses are moderate, while salaries and lease rates are just above average. But this Navy town is no bargain when it comes to housing costs or taxes. And while respondents like the quality of life, San Diego is developing the same kinds of problems that afflict overcrowded Los Angeles.

Population 1991		2,573,462
Office lease rate	sq. ft.	$23
Tax rates	max. corp. income	9.3%
	max. personal income	9.3%
Average salaries	manufacturing	$28,100
	clerical	$19,400
Access to quality labor	rank	43
Pro-business attitude	rank	42

SAN FRANCISCO BAY AREA

Home to Silicon Valley, the Bay Area is a pricey place to do business. Wages are high, as are office lease rates, housing costs, and taxes. An antigrowth philosophy places the area second to last in the survey on pro-business attitude. Residents rank it high for the many sporting and recreational activities it offers, and some believe there's just no better place to live than the Bay Area—even if it is earthquake country.

Population 1991		5,249,089
Office lease rate	sq. ft.	$24.50
Tax rates	max. corp. income	9.3%
	max. personal income	10.8%
Average salaries	manufacturing	$29,900
	clerical	$22,800
Access to quality labor	rank	24
Pro-business attitude	rank	49

SEATTLE

The capital of the Northwest faces an enviable challenge: trying to keep its growth from exploding. The city gets the highest ratings in the survey for the image it casts on resident business and scores well for its pro-business attitude. It also ranks well on management-labor relations. Office lease rates are just above average, while manufacturing wages are high, thanks largely to giant Boeing and its dozens of subcontractors.

Population 1991		2,017,587
Office lease rate	sq. ft.	$22.25
Tax rates	max. corp. income	None
	max. personal income	None
Average salaries	manufacturing	$32,400
	clerical	$18,700
Access to quality labor	rank	7
Pro-business attitude	rank	4

TAMPA

This Florida Gulf Coast city is beginning to suffer growth pains, although it still looks attractive by some measures. Tampa has low wages and near-average lease rates. It has wooed Salomon Brothers, which, despite its troubles, plans to move some back-office operations here from New York City. Yet housing isn't cheap in Tampa, public education ranks low, and high-quality labor is hard to find. Competes with Orlando for business.

Population 1991		2,112,193
Office lease rate	sq. ft.	$21.75
Tax rates	max. corp. income	5.5%
	max. personal income	None
Average salaries	manufacturing	$23,000
	clerical	$16,500
Access to quality labor	rank	43
Pro-business attitude	rank	25

WASHINGTON, D.C.

Brace yourself: Washington (including the suburbs of Fairfax County, Virginia) ranked No. 1 in the survey for overall satisfaction by local executives. Wages, lease rates, and taxes are high. Growth of the area has been rapid, though the District of Columbia proper is still a company town that suffers from serious crime. It has no representative in Congress, despite a population greater than that of Alaska, Vermont, or Wyoming.

Population 1991		3,997,780
Office lease rate	sq. ft.	$27.50
Tax rates	max. corp. income	10.5%
	max. personal income	9.5%
Average salaries	manufacturing	$30,300
	clerical	$20,400
Access to quality labor	rank	42
Pro-business attitude	rank	44

WEST PALM BEACH, FLORIDA

Just north of Miami–Fort Lauderdale, West Palm Beach is soaking up spillover growth. Far more affordable than its tonier neighbor, Palm Beach, West Palm is luring migrants from the Northeast and Midwest. Newcomers flocked here in the Eighties faster than to any of the other 50 areas. Manufacturing wages are notably high. The city ranks second for pro-business attitude and is the only Florida location to score near the top on education. F

Population 1991		894,581
Office lease rate	sq. ft.	$18
Tax rates	max. corp. income	5.5%
	max. personal income	None
Average salaries	manufacturing	$33,100
	clerical	$19,900
Access to quality labor	rank	45
Pro-business attitude	rank	2

REPORT CARD ON BUSHONOMICS

Critics claim Bush lacks a domestic economic strategy. Nonsense. He has ambitious goals and is relying on market forces to meet them. The real question: Is it working? ■ *by Louis S. Richman*

January 19, 1997. George Bush is delivering his final televised address from the Oval Office: "As Barbara and I leave the White House, my most gratifying accomplishment is to have presided over our great nation's economic revitalization. Yes, thanks to our domestic economic strategy . . .

CUT! CUT! ECONOMIC strategy? What economic strategy? As they say in Brooklyn, "fuh-geddaboudit!" Nearly three years and one recession into George Bush's presidency, his Administration appears confused over where it wants to lead the economy. Its domestic policies seem adrift. Since Bush told a cheering Republican convention in 1988 "Read my lips, no new taxes," taxes have risen by $175 billion. The man who declared in his inaugural address that the nation has "more will than wallet" to tackle its domestic problems has watched government spending steadily rise. Even if the economy were to rebound to meet the Administration's own forecast for 1992, annual growth during Bush's first term will have averaged just 1.6%. That's the slowest rate of economic expansion since the Roosevelt-Truman term ended in 1948.

A self-confessed foreign policy junkie, Bush seems dismayingly disengaged from the domestic policy fray. The President is blasted by Democrats in Congress and the pack now running for President as a man who cares more for the plight of the Kurds than for Kansas farmers and unemployed auto workers in Kalamazoo. But who wouldn't rather face Saddam Hussein? With the Republicans down 14 votes in the Senate and 101 in the House of Representatives, the White House's domestic policy initiatives are held hostage by the opposition—and theirs by his freely wielded veto. This stalemate of impotents leads a White House insider to say, "In a period of fun-

Hanging with the home boys: To show that he cares about more than foreign affairs, the President chews the fat with construction workers in Los Angeles.

PHOTOGRAPH BY DIANA WALKER—GAMMA/LIAISON

damental differences between the executive and legislative branches over the appropriate size and role of government, the first commandment of public policy is 'Above all, do no harm.'"

Yet for all the appearance he gives of diffident stewardship over domestic affairs, the President *does* have a strategy—an ambitious one, though it's not readily apparent to those who simply equate a policy with new programs and more spending. The real question: Is it working? The answer requires examining the key elements of his domestic economic policy, point by point.

. . . To think how far we've come! Next year, as we enter the sixth consecutive year of sustainable, noninflationary economic growth, the federal budget will finally be in balance . . .

THE CENTERPIECE of the Administration's economic strategy is the budget pact tortuously concluded last fall between Bush's budget director, Richard Darman, and congressional leaders. The agreement sloughed off the straitjacket of the 1985 Gramm-Rudman-Hollings Act, which imposed automatic across-the-board spending cuts when annual budget-balancing targets were missed. Instead, the new pact sets more flexible goals aimed at lopping some $300 billion off the projected rise in government outlays over a five-year period and shrinking the federal deficit to less than 1% of GNP by 1996.

To slow spending, the budget deal caps appropriations within three separate categories—defense, international, and discretionary domestic programs such as education and housing. Should Congress or the President wish to redirect outlays to pay for new programs in any of these areas, offsetting reductions must be made in existing ones. New spending that exceeds the caps must be financed on a "pay as you go" basis, effectively neutralizing one of Congress's favorite tricks—deferring the cost of new legislation through government credit guarantees.

Sticking to the budget agreement, asserts Michael Boskin, the President's chief economic adviser, will give the economy a big lift. Says he: "Reducing the level of government borrowing is the single most important thing we can do to stimulate long-run growth." But will the deal stick?

BUSH REPORT CARD

Controlling the deficit	**C**	A flawed budget deal hasn't cut spending.
Expanding trade	**A–**	Mexican free trade, *olé*; needs GATT treaty for an A.
Promoting research and high technology	**B**	Helpful tax breaks and more money for basic science.
Improving regulation	**D**	Too much costly new regulation; too little cost-benefit analysis.
Fighting poverty	**C**	Jack Kemp's good ideas aren't getting enough support.

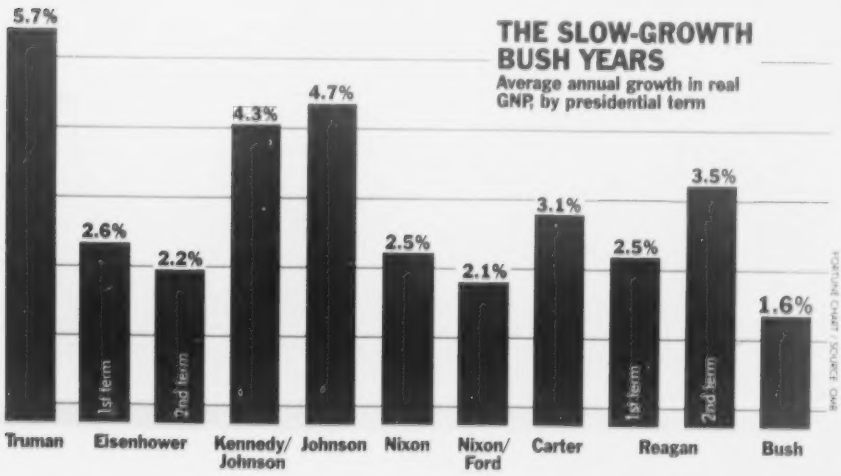
Not likely. The Bushmen have been both too ambitious and too timid in their balancing act. Discretionary spending for domestic programs—15% of all outlays—will be allowed to rise by some 7% a year after inflation until the 1994 fiscal year. But to reach its deficit reduction target by 1996, the Administration will then have to persuade Congress to chop these programs back by an unprecedented 4.6% in fiscal 1994 and 7.5% in fiscal 1995—$27 billion in two years.

And that's before tackling spending on entitlements, such as Medicare and Medicaid, which are exempt from the caps. The "mandatories," as they're called within the Beltway, have been increasing on automatic pilot for decades and now account for 52% of all government outlays, up from 33% in 1970. Bush persuaded Congress to agree to trim the *rise* in entitlement spending by $100 billion by 1996. To make serious headway, however, he will have to cut deeply into the more than $500 billion of entitlement benefits—more than 80% of the total—that goes to the middle class.

The Administration made a faint start in the 1992 budget by proposing increases in co-payments for Medicare recipients whose annual income exceeds $125,000 and reducing agricultural subsidies to "farmers" with over $125,000 in yearly nonfarm income. Together, those fairly painless cuts will save the government just $1.6 billion over the next five years.

What about defense savings? Bush's recent announcement of sharp unilateral reductions in America's nuclear arsenal has revived Democrats' hopes of paying for new domestic programs with lower military spending. But completely eliminating the biggest ticket programs—the Strategic Defense Initiative and the B-2 bomber, both of which Bush wants to keep—would save only $9 billion over the next two years. If Bush can't hold Congress to its promised deep domestic cuts after fiscal 1993, look for another budget summit soon after the next presidential election—and for yet another postponement of a balanced budget.

. . . Thanks to our steadfast resolve, we are enjoying the fruits of a vastly expanded global trading system under the new GATT treaty. Barriers between the U.S. and Mexico are being eliminated, and a single Western Hemi-



And the loser is . . . guess who? Bush's results are based on government estimates for 1991 and 1992.

sphere free-trade zone may soon stretch from the tundra of Alaska to Tierra del Fuego . . .

BUSH IS RIGHT in recognizing that, as the U.S. becomes bound more tightly to the global economy, efforts to liberalize trade must move to the forefront of his drive to stimulate domestic growth. The President and his chief trade negotiator, Carla Hills, have deftly deflected protectionist sentiment at home and broadened support for lowering trade barriers abroad. Prospects that Mexico will soon join the U.S. and Canada in an enlarged North American free-trade zone, a remote possibility when Bush took office, now appear excellent. Says Robert Z. Lawrence, an economist at Harvard University's Kennedy School of Government: "This Administration has proved a much stronger practitioner of liberalized trade than its predecessor."

The big missing piece of Bush's trade strategy is the still unconcluded new General Agreement on Tariffs and Trade (GATT) treaty, which he hopes to sign by year's end. The sticking point is the reluctance of the European Community to end its costly and trade-distorting agricultural subsidies. Bush has stood firm—perhaps too firm given the tough opposition Europe's leaders face from well-organized farm lobbies—by insisting on their total elimination. The Administration maintains that anything less might cause underdeveloped nations, dependent on agricultural exports to earn scarce hard currency, to retreat from a new GATT.

There's a lot riding on Bush's success. A study prepared jointly by economists in Hills's Office of the U.S. Trade Representative and at the President's Council of Economic Advisers estimates that under the new GATT's broader rules, world GNP would expand by some $5.25 trillion over the coming decade—and U.S. GNP would be 3% higher than it would otherwise have been by 2000.

. . . By resisting the temptation to micromanage the economy through a meddlesome industrial policy, we have demonstrated that the federal government can be a constructive partner with the private sector . . .

"This Administration has proved a much stronger practitioner of a liberalized trade environment than its predecessor."

THE PRESIDENT is determined to steer clear of a full-blown industrial policy, but he is edging closer to the border by backing a big increase in generic, precompetitive science and technology research. By 1994 the Administration will have increased the annual budget of the National Science Foundation, the agency that distributes research funds to government and university labs, to some $4 billion—double the 1987 level. More of those dollars will be directed to such key areas of future competitiveness as high-performance computing, biotechnology, and advanced materials research. "There has been a fundamental shift in thinking by this Administration to support civilian science research," says Daniel F. Burton Jr., executive vice president of the Council on Competitiveness, a Washington policy research group supported by high-technology companies. "They are not just open to but solicitous of industry input."

To help industry choose its own winners and losers, the Administration last year more than doubled, to 20%, the value of corporate research and development tax credits. Partly as a result of past reductions in the worth of these credits, growth in corporate R&D spending has fallen since the mid-1980s, from an annual rate of 7% after inflation to less than 2%. This year Bush wants to make favorable tax treatment of R&D permanent. Research by the Kennedy School's Lawrence and Martin Baily, an economist at the University of Maryland, projects that the new incentives will boost businesses' R&D budgets by 4% a year in real terms.

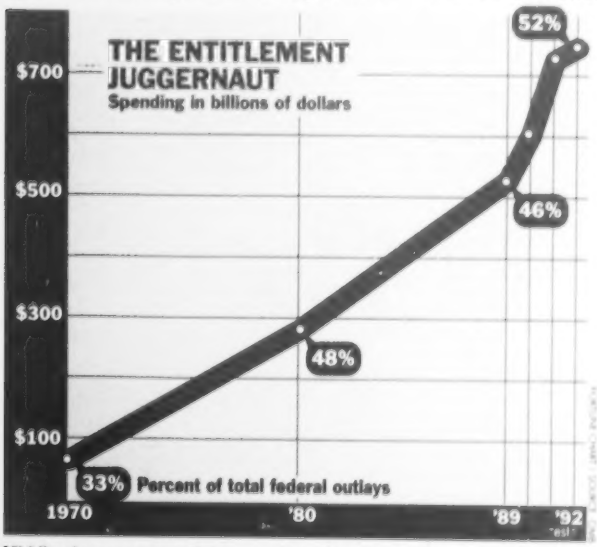
. . . My Administration has unshackled America's banks from archaic Depression-era regulations and given newfound confidence to our financial institutions . . . But we haven't pursued economic growth at the expense of a cleaner environment or by ignoring the millions of Americans who suffer physical and mental disabilities . . .

GEORGE BUSH had two visible jobs as Vice President: to attend funerals of deceased foreign heads of state and to spearhead the Reagan Administration's efforts to curb heavy-handed government regulation. He performed reasonably well at both. Which is all the more reason to regret that President Bush—who now spends so much time with *living* foreign statesmen—risks becoming the re-regulation President.

Give him credit for acting quickly in his Administration's first 100 days to push regulators to speed up shutdowns of insolvent banks and S&Ls. The Bush Treasury also deserves one cheer for proposing, this year, a systematic overhaul of regulations to make banks more competitive. The Treasury initiative, now through the meat grinder of Congress's banking committees and awaiting a vote by both houses, would allow commercial banks to offer a broader range of financial services such as underwriting securities, to open interstate branches, and to permit nonfinancial corporations to own bank holding companies.

Give the President low marks for paying too little attention to the cost of new regulation. The killer is his new Clean Air Act, a

REPORTER ASSOCIATE *John Labate*



Middle-class programs that are tough to trim—Social Security, Medicaid, and Medicare—account for most of the rise in entitlement spending.

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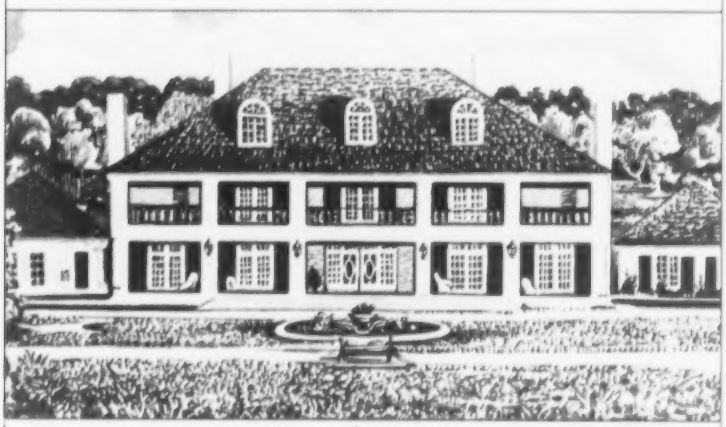

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classic example of government "command and control" environmentalism run amok. The roughly 20-page proposal that Bush sent to Congress in 1990 emerged from the world's greatest deliberative body at close to 1,000 pages. By the time federal, state, and local environmental regulators finish translating the act's provisions into standards for industry and government to meet, the page count could swell into the millions.

The Administration did manage to reduce the act's costs. By threatening a veto, Bush got Congress to accept 95% of the targeted reduction in air-polluting emissions that it originally wanted. The Council of Economic Advisers estimates that this modification cut the cost of the Clean Air Act from over $50 billion a year to about $22 billion. Still, notes economist Robert W. Crandall, an expert on regulatory policy with the Brookings Institution, "whether the Gosplan-like provisions of the act buy us environmental protection worth anything near the cost is dubious at best."

Other big regulatory costs loom. The Department of Labor is busily writing guidelines that business must meet beginning next July, under the President's 1990 Americans with Disabilities Act. How much will it cost? No one knows. According to the Census Bureau, there are some 43 million Americans with disabilities. Depending upon how many qualify as "disabled" under the new law, regulatory policy experts at the National Association of Manufacturers worry that it could become the most expensive piece of legislation ever passed. Says an NAM official, with unintended irony: "No one is against enhancing the civil rights of the disabled, but we are going into this blind."

The Bush Administration is also dithering in its efforts to improve government risk assessment and cost-benefit analysis. To help regulate the regulators, Jimmy Carter created, and Ronald Reagan expanded, the Office of Information and Regulatory Affairs (OIRA) within the Office of Management and Budget. While OIRA cannot overrule agency regulations, it can suggest changes that improve their efficiency and help lower their cost. Economist Robert Hahn of the American Enterprise Institute estimates that by the late Eighties about half of all major regulations reviewed by OIRA were returned to the agencies with recommendations for cost-saving revisions.

During Bush's term, however, OIRA has been all but dormant. The office has not had a director since late 1989. Lacking an effec-

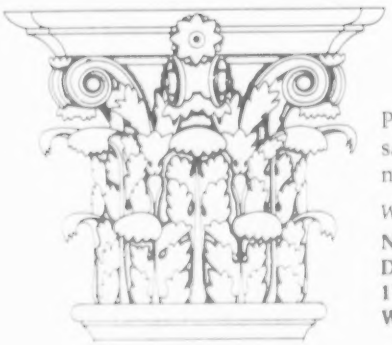
tive watchdog, concludes former Reagan budget director James C. Miller III, who now heads Citizens for a Sound Economy, a conservative grass-roots lobbying group, has weakened regulatory cost-benefit analysis throughout the government. Says he: "The public has little idea of the economic trade-offs it is making for the purported benefits of more government rules. Bush has given a new lease on life to overly eager GS-13s [mid-level career bureaucrats]."

. . . My greatest satisfaction is that we have helped enable all Americans to share in the growth and prosperity we have created. We have made it easier for young middle-class families to buy a new home. And we have made an excellent start in extending opportunity to our poorest citizens by breaking with the dependency and despair of a Big Brother welfare bureaucracy . . .

BLUDGEONED by congressional Democrats who have seized the "fairness" issue, the President's "kinder, gentler" rhetoric has become material for late-night comedians. Lost in the laughter have been several initiatives to help lower- and middle-income American families. For example, the Administration has sensibly coordinated—and increased—funds spent on drug treatment, mental health counseling, job training, and emergency housing assistance in a single program called Operation Bootstrap, aimed at helping low-income families get off welfare rolls. To lighten the costs of child care for working couples and single-parent heads of household, the President is increasing an earned-income tax credit by some $21 billion over the next five years. And in his latest budget, Bush proposed allowing first-time home buyers to tap, without penalty, up to $10,000 in savings held for seven years in individual retirement accounts to help make their down payments.

The most ambitious Bush social policy change would be a fundamental shift in federal programs for the poor. Quarterbacked by Housing and Urban Development Secretary Jack Kemp, the new approach consists of a congeries of efforts lumped under the title "empowerment." Its objective: to curb the vast Great Society antipoverty bureaucracy that keeps the poor trapped in welfare dependency. Instead Kemp wants government to help bring impoverished Americans into the economic mainstream.

Two engines—housing and the economic



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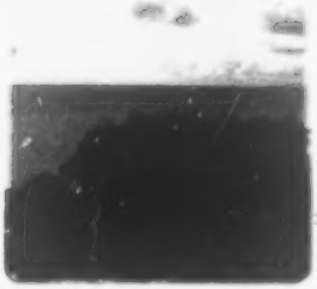

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development of inner cities and depressed rural areas—power empowerment. To give poor families greater control over their communities' well-being, Kemp wants to turn public housing over to tenant-managers and prepare them for privatization. Dubbed Project HOPE (an acronym for Homeownership and Opportunity for People Everywhere), the program would rehabilitate and sell off units in some 150 public housing projects. Small-scale examples where this has already happened in Washington, St. Louis, and Chicago show the approach works. If Kemp gets the $1 billion a year he's asking for, HOPE would create a million new low- and moderate-income homeowners by 1996.

HUD is also stepping up a federal housing voucher program instead of adding to the inventory of inner-city blight by funding the construction of new public housing. The vouchers supplement the income poor families spend on rent and give recipients greater choice over where they live, enabling more to leave depressed areas in search of jobs. Says Kemp: "We want to empower people, not real estate developers."

FAR LESS LIKELY is the goal, elusive for decades, of attracting businesses and jobs to America's poorest communities. To break the cycle of crime and poverty that blocks investment, Kemp is trying to warm up an old idea—"enterprise zones." He'd like to establish 50 of these targeted areas, which would be eligible for a package of federal tax incentives backed by a local commitment for enhanced public services, by 1996.

The Administration's empowerment plans are facing a tough uphill slog in Congress, a battle that even the gung-ho Kemp will lose without help. Already Congress has chopped his request for a 29% increase next year in federal housing vouchers to 9%. Says Kate Walsh O'Beirne, a domestic policy expert at the Heritage Foundation, a conservative Washington research group: "This program needs a megaphone, and only the President has a big enough voice to get the message across." On empowerment, as on so many of his proposed domestic policy initiatives, Bush has been missing in action. Until he makes his Administration's programs more passionately his own personal cause, his domestic policy record will be mediocre.

. . . Good night, and may God bless America.

Oh, and good luck! F

MA BELL AND SEVEN

U.S. telecommunications companies are rushing abroad, where the big growth in the industry is. Successful strategies include picking good partners and sticking to basics. ■ *by Andrew Kupfer*

TELECOMMUNICATIONS news roundup: In the space of just a few weeks early this fall, cellular phones went on line in St. Petersburg and Prague. The Mexican telephone company started taking orders for service by phone instead of making customers stand in line for hours. A new cellular network began competing with the state monopoly in Japan. And anyone in China well enough off to have a TV set and a satellite dish could start tuning in to—ta-*da*!—MTV.

What these diverse global developments have in common is that all are American creations, one way or another. The first three are ventures of U.S. telecommunications companies; the fourth involves American programming beamed into Asia by a Hong Kong–owned satellite. What's more, all exemplify the newly aggressive response of U.S. telecommunications companies to foreign competition at home and abroad.

The $600-billion-a-year global telecommunications industry is changing from a gentlemen's cartel of monopolies and entrenched suppliers into a worldwide free-for-all. Why? Corporate customers are demanding global telephone networks, and the companies that build them want global profits. Developed countries are trying to encourage competition, while developing countries see communications as a prerequisite for attracting new business investment.

For U.S. companies, the main action is overseas. Spending on phone service abroad will increase anywhere from 30% to 80% a year, depending on the country, while U.S. growth stagnates in single digits. At stake are foreign purchases of telecommunications gear that will average $60 billion to $70 billion a year for the next decade—more than the total spent worldwide since Alexander Graham Bell first told Watson he wanted him. American telephone companies also need new markets to generate enough sales volume to be cost competitive in the U.S. with foreign companies—both manufacturers and service providers.

The U.S. has been a laggard in the global telecommunications battle. A 1990 Commerce Department report noted that the trade balance in telecommunications equipment went from a surplus of $1.1 billion in 1978 to a deficit of $2.6 billion ten years later. The report concluded that for the most part American companies are no longer competitive in telecommunications gear for homes and offices. It found that productivity and innovation are growing more rapidly in other countries, and that foreign companies get better financing and more government support for exports of telecommunications goods.

But that gloomy picture is starting to change. Just as the 1984 breakup of AT&T set off a scramble in the U.S., deregulation in other countries is prying open doors for American companies. U.S. equipment makers have been selling their products abroad for decades, both for the central switching offices of public telephone companies and for the private telephone systems of corporations. The freshly open attitude in many countries is making their job a lot easier. With some exceptions: GTE, for 46 years the monopoly provider of phone service in the Dominican Republic, now faces competition from a local company. Usually, though, deregulation helps.

U.S. companies are faring best abroad when they do what they do best: running telephone companies. They have had mixed

A little lobbying by Dan Quayle (with Indonesia's Vice President Sudharmono and their wives) . . .

. . . helped AT&T win a $250 million contract to replace antiquated telephone switches (below, left). At right, AT&T trains operators for the new equipment.

BABIES GO GLOBAL

results where they are least experienced: operating cable TV franchises, a business they are barred from at home but are rushing into elsewhere. The votes are still being counted on a third type of venture, the risky business of building cellular phone systems in developing countries that for years have neglected their basic phone networks. Well into the era of deregulation, the American telephone companies are just now learning the rules their multinational customers have written over the past decade: Team up with other companies that can help you, pick projects that fit with what you already do, and think local when you go global.

IN THE INTERNATIONAL arena of giant equipment makers, AT&T is America's shot. In the past year Robert Allen, its mild-mannered chief executive, has tried to turn his company into a foreign power, first by backing the Eighties-style hostile takeover of NCR, the computer maker, which has 62% of its sales offshore. Later he grandly pledged to build AT&T's foreign revenues from 16% of the total last year to 25% by 1995 and 50% by 2000 or so, not including NCR sales. He appointed Randall Tobias to the new job of vice chairman for international activities, a kind of secretary of state, with a brief to broaden AT&T's global reach.

If all this is really to presage a dashing, worldly AT&T, the strategy needs time to gel. Tobias points out that at divestiture AT&T had fewer than 100 employees based outside the U.S.; now it has 22,000 (out of 272,000 in all, not counting NCR). Yet he says: "I'd criticize us by saying we'd been making a disproportionate number of decisions in the U.S. as opposed to overseas. If I'm sitting in Bangkok or Mexico City or Amsterdam, problems look and feel different than if I'm three or four or five or six thousand miles away in New Jersey."

AT&T wants to use NCR's European sales and distribution network to push its telecommunications gear there. But until it can bend the computer maker's sales force to its purposes, AT&T's biggest scores abroad will continue to come from its Network Systems division, which makes telephone switches. AT&T is up against foreign competitors that are vigorously backed by their governments. These governments, which often run state telephone companies, offer both political support and big pools of money to finance customer purchases.

The U.S. government is willing to go to bat for its companies, but only if a single American company is after a foreign contract. (With seven regional phone companies, AT&T, and smaller competitors beating the bushes for business, that rarely happens.) Foreign governments choose the strongest-looking contestant to back; Uncle Sam won't pick winners.

When U.S. companies do get government support, it can clinch a deal. In 1988, for example, the Indonesian government solicited bids for 350,000 telephone lines of digital switching capacity and demanded easy financing. Indonesia wouldn't even look at a company's bid unless it could offer a 25-year loan at 3.5% interest, with a seven-year grace period before any payment became due. AT&T's vice president of government affairs, Randolph Lumb, says: "Those terms are beyond the scope of any corporation, especially for a project of that magnitude": up to $250 million over a four-year period. The deal was vital to AT&T—not just for the quarter of a billion, but for the chance to build a long-term business in one of Asia's most promising markets. *continued*

REPORTER ASSOCIATE *Jessica Skelly von Brachel*

MAJOR AMERICAN DEALS ABROAD

COMPANY Date/Venture	VALUE[1] (millions)	DESCRIPTION
AMERITECH and BELL ATLANTIC **September 1990**/Acquired Telecom from New Zealand government	**$2,460**	Along with two local firms, assumed ownership of New Zealand's state telephone company, including cellular and directory services.
NYNEX **July 1990**/Awarded 11 cable franchises in Britain	**$1,100**	Will provide local telephone service and cable TV. The deal will make Nynex the largest cable franchise owner in Britain.
SOUTHWESTERN BELL **December 1990**/Acquired controlling interest in Telmex of Mexico	**$953**	Will manage and modernize Mexico's telephone system. The consortium includes France Telecom and Grupo Carso of Mexico.
PACIFIC TELESIS **December 1989**/Awarded a national cellular license in Germany	**$500**	The consortium, led by Mannesmann AG, will build and operate the second digital cellular system in Germany, to compete with Deutsche Bundespost.
US WEST **December 1989**/Awarded 14 cable franchises in Britain	**$300**	US West holds a minority interest in each of the franchises. Most will provide telephone service as well as cable TV.
AT&T **November 1990**/Awarded contract for switching equipment in Indonesia	**$250**	Building 350,000 lines of digital switching capacity for the state telephone system. The deal included a U.S. government-backed 25-year loan at 3½%.
NORTHERN TELECOM[2] **March 1988**/Awarded contract to supply switching equipment in Japan	**$250**	Only non-Japanese supplier of switching equipment to NTT. U.S. subsidiary initiated deal and made equipment. To date, 900,000 lines of capacity installed.
US WEST **December 1989**/Awarded license for communication network in Britain	**$240**	The consortium, which includes Thorn EMI, Northern Telecom, and Deutsche Bundespost, will develop personal communication network for pedestrians.
BELL SOUTH and MOTOROLA **February 1989**/Awarded cellular license in Argentina	**$220**	Bell South leads a consortium, including two Argentine companies, that built the first privately owned cellular network in South America.
BELL ATLANTIC and US WEST **November 1990**/Awarded cellular license in Czechoslovakia	**$80**	Joint venture with the state telephone company to build and operate cellular and data networks and modernize the basic telephone network.

[1] Sums represent contribution of U.S. participants over life of project. [2] Company is incorporated in Canada.

FORTUNE TABLE

The value of such a project was not lost on Washington. AT&T won the support of the Commerce, Treasury, and State departments, as well as the White House. The government agreed to provide financing through the Export-Import Bank. Then came the lobbying. Vice President Dan Quayle visited Indonesia to meet with government officials. According to the *Far Eastern Economic Review*, AT&T had the backing of the eldest daughter of Indonesian President Suharto; that helped parry rival NEC of Japan, which had retained a company owned by Suharto's youngest son. George Bush appealed directly to Suharto. The AT&T bid succeeded.

Tobias hopes that U.S. government involvement will continue to help U.S. telecommunications companies win global market share. In September he made a lobbying trip with Quayle to Nigeria, which has 119 million people and only 350,000 phone lines.

Like a vine whose shoots crumble a brick wall over time, some U.S. companies are finding that pure persistence helps break down barriers. Motorola, which makes semiconductors and wireless phones, opened a Japanese office as long ago as 1962 and languished there for two decades. Under Japanese law at the time, foreign companies couldn't manufacture computer components in the country, and NTT, the state telephone company, had a monopoly on radiophones. The Motorola outpost could sell only a small volume of goods made elsewhere.

But it gave the American company a presence, which it used to win approval, along with other international companies, to sell cellular equipment in Japan. Finally, in 1985, international pressure and the AT&T breakup persuaded the Japanese government to end NTT's telephone monopoly. Motorola then successfully bid to provide the transmission system and phones for one of two new private Japanese cellular companies, both competing with NTT's existing cellular system.

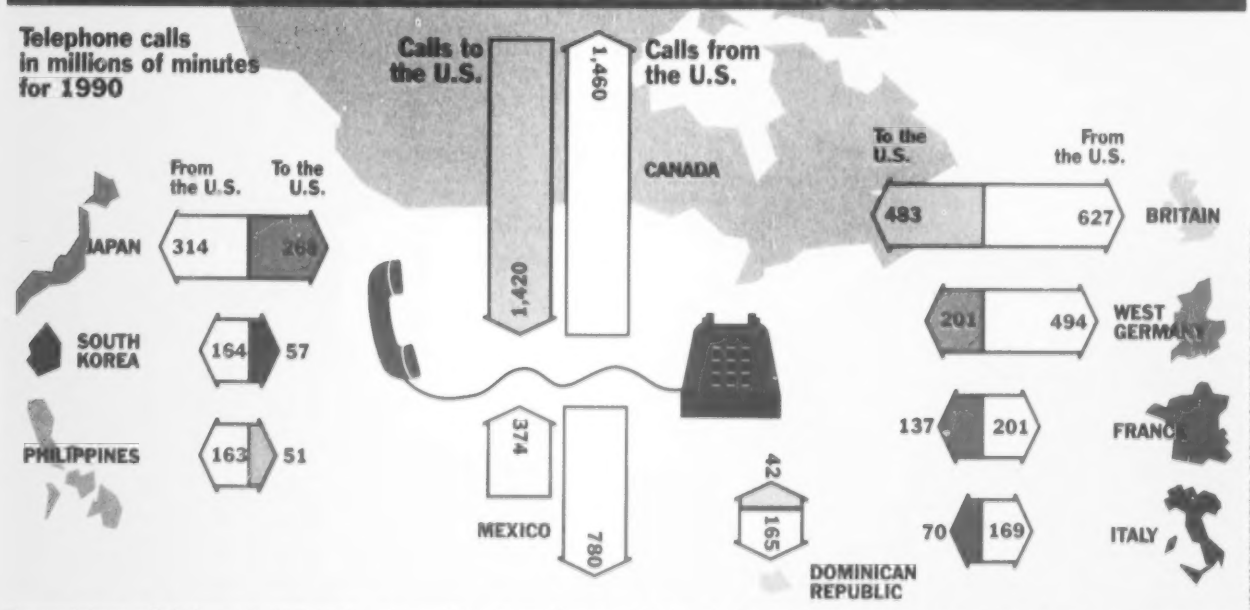
THERE WAS a catch. While the NTT network covers the entire country, each of the two new competitors would serve only half of it—and Motorola got the half that did not include Tokyo. Because Motorola's cellular system was incompatible with both of the systems that would be serving Tokyo, a Motorola subscriber visiting the capital wouldn't be able to make or receive a call. Few customers were likely to sign up with Motorola, even though it had the smallest, lightest phone.

The company's only chance was to get a sliver of the radio spectrum for its roaming subscribers to use in Tokyo. NTT, which happened to control spectrum allocation in Japan, said none was free. But Motorola knew that NTT was keeping in reserve a spectrum band for future expansion. NTT was hoarding. Motorola accused Japan of violating trade agreements to make the spectrum available to foreign companies. U.S. Trade Representative Carla Hills threatened an all-out trade war—duties and penalties on U.S. imports from Japan. In mid-1989 Japan relented. The Motorola system began operation this October.

Motorola persisted in that long, hard slog not only for the business opportunity but for defensive reasons as well. The head of Motorola's Japan group, Arnold Brenner, explains: "If you can't compete with Japan in its home market, you give them sanctuary where they can experiment with their product and bring it to the rest of the world. Then you're in trouble."

The Baby Bell companies have also gone

THE TEN COUNTRIES AMERICANS TALK WITH MOST



For most phone calls between the U.S. and foreign countries, it's the American who drops the nickel. One reason: U.S. long-distance companies charge less than their foreign counterparts. But American carriers must pay foreign ones for completing the call. That amount is not half of what they charge you, but half of a far higher "international settlement rate." On some calls U.S. carriers hand over 75% of what they collect. Yet AT&T, which has about 80% of the U.S. traffic, is curiously complacent. Why? The high settlement rates make it tougher for Sprint and MCI to compete on price.

GRENVILLE TURNER WRIGHT

Tom Potrykus of Ameritech runs marketing at New Zealand Telecom, jointly owned with Bell Atlantic. That's a satellite antenna not far from Wellington.

overseas in force. In the two biggest international acquisitions so far (see table), they have bought controlling interests in the state telephone systems of New Zealand and Mexico, taking advantage of a chance to build their basic business with the stroke of a pen. Bell Atlantic and Ameritech, which teamed up to buy New Zealand Telecom for $2.4 billion in 1990, sold off 31% of the company this July as required by the terms of the deal. (The government wants to keep some of Telecom in local hands.) The American partners made a profit of $147 million on the sale.

Southwestern Bell may have done even better with Telmex, the Mexican phone company that it bought an interest in last December as part of a consortium with France Telecom and Grupo Carso, a Mexican diversified services company. (The consortium acquired 20% of the equity and 51% of the voting rights.) Mexico's phone system was not in terrible shape, but many small towns had no service at all and customers who wanted repairs had to wait in line for hours. Worse, anytime the company put in a new central office switch, everyone in the service area had to get a new telephone number.

The consortium agreed to some ambitious goals: It will invest $12 billion of Telmex revenues over the next five years to increase the number of phone lines by 12% annually. Where capacity is available, it has started guaranteeing installation dates, sometimes within a week. Jeff Robinson, director of international operations for Southwestern Bell, says: "Mexico City has 19 million people and only three million phone lines. There's all the demand you can stand."

THE DEAL illustrates the value of doing business in the right place with the right people. Texas, the biggest state in Southwestern Bell's service area, shares a 1,200-mile border with Mexico. Phone traffic is heavy between the two regions, and many of the company's employees speak Spanish. Southwestern Bell also chose its partners well. Telecommunications lawyer Judith O'Neill of Steptoe & Johnson in Washington, D.C., says: "One thing American telecom companies have done to compete better is the joint venture. It's now No. 1 in the rule book."

The aim is not just to lay off the investment risk but to share responsibilities and human resources. France Telecom is renowned in Europe for modernizing the French telephone system; it will advise Telmex on installation of digital switches. Grupo Carso will manage administration, labor, and regulatory matters. Southwestern Bell will maintain the lines from the central office to the customer and expand the cellular system. It has already made a bundle on the deal by exercising an option in September to buy another 5% of Telmex from the government, which had retained some of the highflying stock. Southwestern Bell came out with a $447 million paper profit.

The chance to buy a whole phone company is rare, so the Baby Bells have generally concentrated on setting up cellular systems in developing countries where basic phone networks are in poor repair. Cellular systems, relatively easy to install, are a quick communications fix. AT&T has only now begun talking about running its own cellular systems abroad. So far it has provided just network gear in South Korea, the Philippines, and the Dominican Republic.

This September, US West began operating the Soviet Union's first cellular telephone system in St. Petersburg (then still officially called Leningrad). The company built the system in six months amid high drama. Dick Callahan, who runs US West's foreign operations, says: "Anatoly Sobchak, Leningrad's mayor, called the head of our operation there on Wednesday of Coup Week. He wanted to make sure we were going ahead with the project because they needed the capacity." US West is also adding new international long-distance switches to the regular phone networks in Kiev, Moscow, and St. Petersburg, increasing the country's international circuits from 1,200 to over 24,000. (There are 637,000 from North America to Europe and Asia.)

Bell Atlantic just began operating a cellular system in Czechoslovakia in tandem with US West. The experience put American flexibility to the test. The government phone

people originally wanted the Baby Bells to install one cellular system that would serve for two years—and then replace it with another now being developed. They also assumed that cellular service would be universal, even in the countryside, where it could only lose money. After scaling back the project to cover just two major cities, they learned from the Americans just how bad the basic Czechoslovak phone system was. So they reexpanded their plans for the cellular system to cover all major cities. Daniel Behuniak, vice president of Bell Atlantic International, says gamely, "We were presented with many opportunities to redefine what our package was."

Some verities of doing business abroad just do not apply in telecommunications. The conventional wisdom says to avoid capital investments in countries with Monopoly money currency. Yet Bell South has created a niche building cellular systems in South America. Surprisingly, the company doesn't have to worry about deadbeats. O'Neill, the telecommunications lawyer, says, "Once you have service in Argentina, you never stop paying for it because it can be six to 12 years before you get it turned back on." One telephone just installed had been ordered in 1948.

US West's Delta Telecom joint venture with the Soviets has brought cellular telephony to St. Petersburg. The Cyrillic lettering on the building to the right spells Faberge.

It's often argued that U.S. telecommunications companies are at a disadvantage at home because the American market is the most open in the world. For the Baby Bells, though, Britain is the Wild West. There they can compete in two businesses they would sorely love to enter in the U.S. but legally may not, except for small-scale tests: cable TV combined with phone service over the same wire, and personal communications networks, or PCNs, the next generation of cellular service. PCNs use phones that are smaller, lighter, and cheaper than current models, and are designed for use by people on the street or in buildings. Nynex is investing over $1 billion in British cable systems; US West has cable systems there too, and will begin building a nationwide PCN service later this year.

The Baby Bells' cable ventures have not been an unalloyed success. A US West consortium pulled out of a cable franchise in Hong Kong, losing $6 million after a partner sold out and the government authorized a new satellite TV service that killed a lot of cable demand. And cable franchises in Britain aren't as profitable as they can be in the U.S. Southwestern Bell's Robinson says that compared with the U.S., people in Britain spend less time in front of the tube and more in front of a jar at the local pub. His staff has also found that potential British subscribers don't take to mail solicitations and must be signed up door to door. The company has even caused resentment by tearing up hallowed old cobblestones to lay its cable. Says Robinson: "Without a doubt we've been somewhat disappointed with the penetration levels. Cable here is a much more difficult sale."

Companies that score first in new international markets are often ones Americans have never heard of. In 1986, Hutchison Telecommunications of Hong Kong learned that Lloyd's of London had for sale, cheap, a damaged Western Union satellite that had been retrieved by the space shuttle. No communications satellite served Asia then, so Hutchison hatched a plan to launch one in partnership with the government of China.

Rick Siemens, Hutchison Telecom's chief, says, "No one ever thought of a Far Eastern country as being wealthy enough for a satellite, but it is ideal for a developing country without a ground network." The satellite went up in April 1990 at a cost of about $110 million. Hutchison has leased all 24 transmission sites on the satellite. In September, the company started phasing in the five-channel Prime Network, which, among other entertainments, is bringing MTV within range of 2.7 billion unsuspecting Asians. The satellite venture is already making money on an operating basis.

MANAGING company phone systems is becoming enormously complex as multinational corporations spread out. That fact is raising the tempo of competition among providers of long-distance service, including AT&T, MCI, Sprint, British Telecom, France Telecom, Deutsche Bundespost, and NTT. David Yedwab, vice president of the Eastern Management Group, a New Jersey consulting firm specializing in telecommunications, says: "All the international carriers are groping to develop alliances so a company that wants a private international network only has to deal with one of them."

British Telecom is trying to go one better than that: It announced in September that it has started its own international network. BT will have switching centers in 70 major cities around the world. The company will link the centers with fiber-optic cable, connecting each of a customer's offices to the nearest hub by microwave or leased lines. In some countries BT will need government permission if the network is to serve more than one company. But not in the U.S., which means domestic long-distance carriers can no longer consider American customers safe bets even on their home turf.

The American pioneers abroad are in a turbulent race for the best opportunities. One veteran wonders whether the Baby Bells have spent enough time thinking about long-term strategy. "We lack a vision of what happens beyond the year 2000," says Andres Bande, head of Ameritech International and formerly with US West. "Companies are now wrestling with how the pieces will all fit together." Nevertheless, U.S. telecommunications companies cannot afford to hold back overseas. When Arnold Brenner of Motorola addresses the point, he quotes hockey star Wayne Gretzky, no slouch himself in international trade: "There is a 100% probability that you will not score on the shots you don't take." F

HOW COMPANIES SPY ON EMPLOYEES

Done right, monitoring performance by computer or telephone improves service, productivity, and profits. Done wrong, it just bugs the staff—in both senses.

■ *by Gene Bylinsky*

DOES TECHNOLOGY make service workers more productive? Maybe not always, but using it to help supervise them can sure improve their performance—and often yields increased sales and profits.

At General Electric's gleaming Answer Center in Louisville, Kentucky, for instance, more than 200 agents field over 14,000 telephone inquiries a day from potential appliance buyers and fix-it-yourselfers. Ten "coaches" record the agents' calls and later play back some of the conversations to the agents to enhance the quality of their dealings with the public. This so-called silent monitoring, along with other management techniques, pays off in 96% Answer Center customer satisfaction, as measured by outside survey firms. Center manager William E. Waers reports that while it costs GE $4 to answer each call, the center generates an average of $16 a call in appliance sales and service savings. The company can often avoid sending out repairmen to fix products under warranty.

Silent monitoring, where the employee doesn't know exactly when the "coach" is listening, is spreading among U.S. companies that use service workers. The practice isn't new with telephone companies; AT&T was using it in the late 19th century. But it has now spread to airlines, banks, insurers, computer manufacturers, appliance makers, and others that all told operate at least 5,000 incoming telephone call centers around the country; most use monitoring of one kind or another. At many companies, from biggies like Southern California Gas to small fry like Data Entry Services, a Baltimore payroll and ledger processor, managers deploy computerized devices and software programs that

REPORTER ASSOCIATE *William E. Shreline*

So-called silent monitoring at GE's Answer Center in Louisville has paid off in customer satisfaction. Here technician Ruben Castillo fields a consumer's query about an appliance. At any time, a supervisor may be recording the conversations for playback to help him improve his responses.

PHOTOGRAPH BY BILL LUSTER

GAYLORD HERRON

Avis uses direct monitoring with newer reservation agents who ask for help. In Tulsa, senior agent Kim Cuccuini (center) takes turns responding to calls with Sevillia McKenzie (left) to give her pointers on technique.

count the keystrokes of their data entry clerks and telephone operators to gauge productivity. Others take surveillance to Big Brother extremes: They secretly watch the screens of desktop computer operators—and have even been accused of reading employees' electronic mail surreptitiously.

No one knows exactly how many American workers are being monitored. After surveying several hundred public and private offices in the mid-1980s, the congressional Office of Technology Assessment put the number at six million. Last year a study of 186 New York metropolitan area companies by two state university professors found 73—roughly 40%—using electronic surveillance.

WHATEVER the total these days, the number and variety of workers falling under electronic surveillance are clearly growing. Waiters, nurses, and hotel maids are beginning to be monitored, often by hand-held computers they carry around themselves. But it's not only relatively low-paid workers engaged in repetitive tasks who are having their moneymaking effectiveness checked this way. Surveillance is expanding to cover highly paid professionals as well—stockbrokers, loan officers, lawyers, even veterinarians. At the Charles Schwab discount brokerage, experienced stockbrokers who earn as much as $70,000 a year are routinely listened in on through computerized voice-recording systems. The purpose is to improve performance by having supervisors appraise the quality of customer service, as well as to create a permanent record of the transaction.

"The effect of this expansion of computing is to make management more far-reaching in its grasp on the life of the corporation," concluded sociologists James Rule of the State University of New York at Stony Brook, and Paul Attewell, a former colleague, who did the survey of companies in the New York area. Says Rule: "Computers can reveal certain types of information that otherwise simply would not be available to managers. Now they can make better-informed decisions."

Surveillance—properly done—can help people do their jobs better. But as employers' needs for more information about employee performance bump up against workers' desire for privacy, the negative aspects of electronic monitoring and telephone surveillance are getting more attention. Legislation to limit secret monitoring is moving through Congress. Unions point to studies that show the stress electronic monitoring puts on employees (see chart). Some business groups, including the National Association of Manufacturers, are fighting the proposed law.

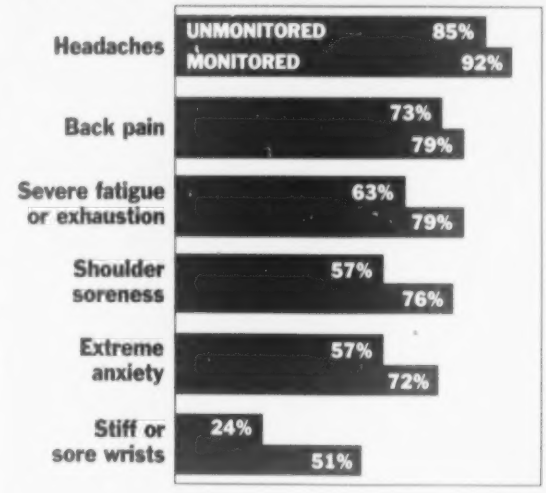
A growing number of class-action lawsuits by employees accuse employers of overstepping the bounds of decency and privacy in the workplace by scrutinizing electronic mail or eavesdropping on telephone calls. Some employers face suits for firing workers supposedly because the bosses didn't like electronic mail messages they had read—sometimes after assuring employees of privacy. In Carson, California, software specialists Bonita B. Bourke and Rhonda L. Hall are suing Nissan Motor Corp. in U.S.A. for allegedly forcing them to quit after a supervisor had read their electronic mail and objected to their using it for personal correspondence. Nissan calls the charges unfounded.

The most extensive case of alleged corporate spying on employees now in the courts pits the Communications Workers of America (CWA) against Northern Telecom Inc., the U.S. subsidiary of the Canadian telecommunications giant. To thwart the union's organizing activities, the CWA says, Northern Telecom riddled a plant in Nashville with telephone bugs and hidden microphones that remained in use for 13 years. The CWA claims that the company tapped not only business phones but also public phones in the employee cafeteria, and recorded private conversations of workers with people outside the company.

The federal judge in the case has in hand tapes of recorded conversations, some produced by a former company security officer. Northern Telecom spokeswoman Linda Henson responds, "We do not condone, nor have we ever con-

DANGEROUS TO YOUR HEALTH

Knowing that somebody may be listening in makes stress-related complaints more common. The table shows results of a University of Wisconsin study of 762 telephone operators.



FORTUNE CHART

doned, any kind of illegal or unauthorized use of electronic surveillance equipment or any other sort of improper eavesdropping." She says the company does not comment on lawsuits.

Despite the horror stories, managers are finding plenty of legitimate ways to use monitoring to improve productivity without alienating or harassing workers. The best adopt some of the following techniques:

■ They select and train employees with considerable care.

■ They make clear to all employees how and why they will be monitored.

■ They use monitoring as an aid to coaching and counseling, not as a disciplinary tool. At the big Avis car-rental reservation center in Tulsa, for instance, the top performers work directly with newer agents who ask for help by sitting next to them and taking turns handling calls. "You invest your time where you can improve performance," says Charles Bell, vice president for reservations at Avis. "You don't waste it monitoring superstars."

■ They involve employees in setting up a fair, workable system. A shining example: AT&T is cooperating with the CWA in five pilot projects in the eastern U.S. involving about 1,000 telephone operators. AT&T's idea is to set up "self-managed" telephone call centers where employees work in teams. Workers now do the listening in to coach less experienced operators, and much less frequently than supervisors did in the past.

■ Finally, the best users emphasize quality rather than quantity. At the Answer Center, GE bases 70% of its operators' grades on the quality of their responses, 15% on such matters as showing up at work on time, and the remaining 15% on how many calls they handle. GE imposes no restrictions on how long an operator—or a technical expert, who stands by for particularly tough questions—spends with a caller. Some complex queries have taken as long as an hour and a half; the toughies have included how to clean a dishwasher after using it to thaw frozen fish, how to remove marbles from an icemaker, and how to fix a broken generator on the Alaska pipeline. "I don't have to worry about numbers to get a good performance review," says Diane Book, a ten-year veteran at the center.

By contrast, at some telephone and airline companies such as the Baby Bells and TWA, some operators are restricted to short "talk times," and productivity is measured primarily by the number of calls handled. Quotas are anathema to such experts as Gordon MacPherson of the Incoming Calls Management Institute in Annapolis, Maryland; Laura Sikorski, partner in Sikorski-Tuerpe & Associates of Centerport, New York; and other consultants. They say quotas can lead to a decline in both productivity and quality of response, and impose unnecessary stress.

"I have personally witnessed how my workplace has been turned into an electronic sweatshop by monitoring," TWA reservations agent Harriette Ternipsede told a congressional subcommittee hearing on the subject. (TWA says its monitoring doesn't differ from that at other airline reservation centers.) MacPherson and his fellow consultants try to coax call center managers away from indiscriminate monitoring and steer them toward the dictum of W. Edwards Deming that quality generates quantity. It's catching on, MacPherson says: "We're in for a period of enlightenment."

Director Karen Nussbaum of 9 to 5, a working-women's group: Don't monitor experienced employees.

ENLIGHTENMENT is overdue in the way some employers apparently monitor their employees' use of desktop computers. A PC may be personal, but it's far from private, especially if it's part of a network. A password keeps out the hackers but not necessarily the boss. The Norton-Lambert Co. of Santa Barbara, California, which makes CloseUp networking software, takes out trade journal ads to urge employers to "look in on Sue's computer screen . . . In fact, Sue doesn't even know you're there! Hot key again and off you go on your rounds of the company. Viewing one screen after another, helping some, watching others. All from the comfort of your chair."

Software suppliers such as Networking Dynamics Corp. of Glendale, California, which sells programs called Peek and Spy, boast that dozens of FORTUNE 500 companies use them—most merely to peek, others to spy. Peek requires an employee's approval on each occasion for a supervisor to see his PC screen; Spy allows access to the screen without the employee's knowledge or approval. Each program can cost anywhere from $800 to $8,000, depending on the size of the computer system.

Corporations are no more likely to admit

to outright spying on employees than they would be to interrogating them about wife beating or child abuse. Peek users, on the other hand, are somewhat more open. National Semiconductor says it employs Peek in its South Portland, Maine, customer response center to help supervisors troubleshoot remote PC screens. Often the aim is simply to make networking easier: Chevron is installing a Peek program in its Richmond, California, research facility to allow researchers to look at colleagues' screens so they can collaborate more readily.

The use of computer surveillance programs is soaring. According to Gartner Group, a Stamford, Connecticut, computer data analysis firm, they will hit $175 million in sales this year and should continue to grow at about 50% a year until at least 1996.

One major customer is American Airlines, which is installing remote-screen surveillance software to supplement its listening in on telephone calls at its big reservation center at the Dallas–Fort Worth airport. American says the idea is to enable supervisors to help agents use its global Sabre reservation system more effectively. In addition to hearing what agents are telling customers on the phone, supervisors will be able to see what agents are entering on their PC screens.

By contrast, executives at GE's Answer Center elected not to buy programs of that sort. "It just goes against our philosophy of professionalism and trust," says manager Bill Waers. Unrequested assistance risks driving employees up the wall. Several years ago one Midwestern newspaper reporter was interrupted in the middle of writing a story by an unseen editor who suddenly complained right on her screen: "I don't like your lead."

The fast-growing local area networks that tie many PCs together, along with the introduction of new telecommunications systems, make monitoring a lot easier for supervisors who are so minded. Two Apple Macintosh models appeared last year equipped with built-in microphones. The goal was to allow Mac users to store a limited number of voice commands that the computer would recognize. But that same feature offers unlimited opportunities for eavesdropping. There's no evidence that it's been done, but with the right software a distant manager could turn on the microphones and listen in on the Mac users' conversations. As the Macintosh example suggests, and as managers and telecommunications consultants never tire of emphasizing, it's not the technology that's evil. How it's used makes all the difference.

EVEN CRITICS concede that silent monitoring can be a great aid in teaching new employees how to deal with the public on the telephone. What they object to is its use once training is over. Karen Nussbaum, director of the 9 to 5 National Association of Working Women, says she has never heard a telephone operator or agent say that silent monitoring is helpful to experienced workers. Her group has compiled workers' complaints that such monitoring is "degrading," "demoralizing," and "hard on the nerves." Says Jack Carsten, a venture capitalist who in the mid-1980s ran Intel's 12,000-person components division: "Management that listens doesn't need any listening devices."

Consultant MacPherson: Don't set quotas that workers must meet.

Legal protection against surveillance for employees in American companies is almost nonexistent. The legislation now before Congress would not ban silent monitoring as a quality-control technique, but it would require employers to notify workers in advance and to alert them with a beep or a computer screen signal when monitoring is in progress. Many managers feel that would leave them without a reliable way to measure the quality of telephone responses. Thomas Flood, a vice president of Pacific Bell, worries that the practice "may reduce the quality of service currently provided to customers."

But not quite two years ago US West, the Baby Bell that serves 14 Western states, started informing its operators in advance of individual monitoring. They can choose to be monitored either remotely or by a supervisor sitting next to the operator. Despite fears in the industry that workers would slack off when they knew they were not being monitored, and that service would decline, US West has actually seen a rise in service quality.

The company now measures quality primarily by surveying thousands of customers each month. Says Arnold Manseth, US West vice president for employee relations: "You don't go into this with the assumption that everybody is there just to put in their time and that unless you somehow or other trick or force them to do a good job, they are not going to do it. Our thinking is just the opposite—we assume that people are going to do a good job. We know our employees are responsible and trustworthy." He adds, "We're probably breaking new ground in this area of service observing. We're really trying to form a partnership with our employees."

Part of the solution may lie in yet another new kind of technology: voice processing, the hottest trend in telecommunications, which allows the use of an "automated attendant." Combined software-hardware systems that incorporate this technology answer calls automatically and permit callers to route themselves directly by pressing various buttons in response to recorded instructions. A customer, for example, can Touch-Tone his way to, say, the current price of a stock and then, if he wishes, buy or sell the shares.

A growing number of banks use the systems. American Airlines offers a special 800 number that lets a traveler check flight schedules with uncomplaining machines before ordering a ticket by talking with a monitored agent. The result, says consultant Laura Sikorski, is reduced telephone costs and payrolls. And less of the friction that comes with spying on the staff. F

DEALING WITH SEXUAL HARASSMENT

Smart companies are educating employees about what it is—not always an easy call—investigating allegations fast, protecting victims, and penalizing offenders. ■ *by Alan Deutschman*

WHO COULD WATCH the controversy surrounding Clarence Thomas and Anita Hill without wondering how a case alleging sexual harassment might be handled in his or her own office? How to respond if you are preyed upon, or if you, as a manager, are charged to investigate an allegation? Says Labor Secretary Lynn Martin: "If any good comes from the Thomas situation, it will only be a wider discussion of the issue of harassment." That issue, always sensitive, has become increasingly subtle and confusing as legal definitions of harassment expand from obvious barbarities to encompass acts that over time create a "hostile work environment."

Business stands on the front line in the battle against harassment, pushed there by judicial decisions in the 1980s that hold employers financially liable for workers' transgressions unless the company actively strives to prevent offenses and responds effectively when they occur. As a result, corporations are getting tough about the subject: crafting intensive seminars for employees, such as those that take place at Honeywell and Corning; establishing 24-hour hotlines and providing security for victims fearful of reprisals, as Du Pont does; and initiating and completing inquiries swiftly, as AT&T strives to do.

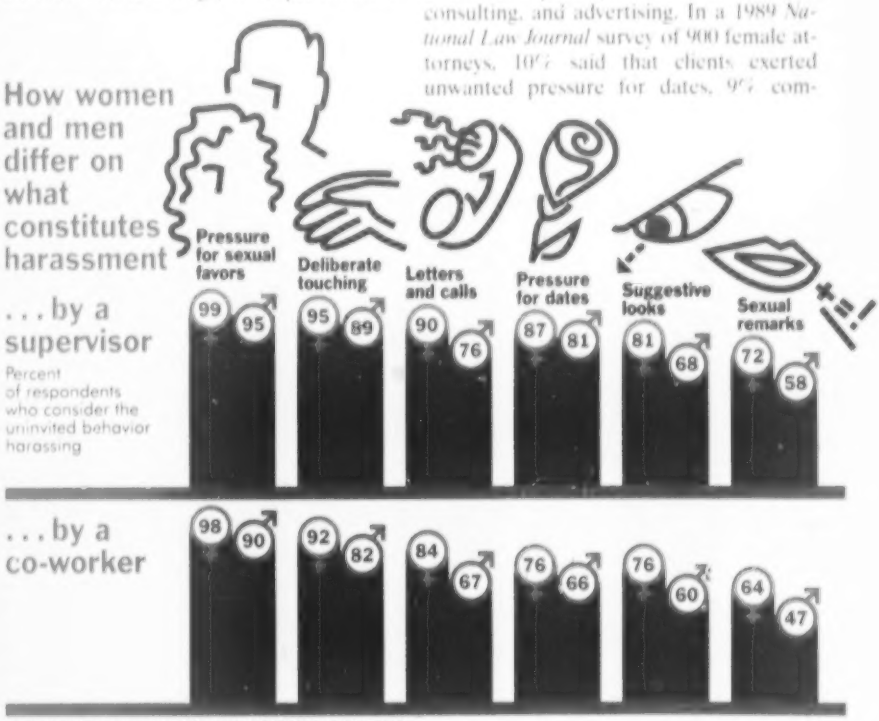
The results? No big gains so far—it may be early, and there are precious few data from the past to compare with. But the experience of large organizations at work on change offers valuable lessons for any company or concerned employee.

While even a single case of harassment is one too many, the extent of the problem may be overblown, particularly in assertions that 75% or 90% of women have been victimized. The most authoritative data on the pervasiveness of harassment in its various guises come from the U.S. Merit Systems Protection Board, a federal agency. In 1980 it polled 20,000 federal employees about the incidence of sexual harassment in government offices. It repeated the survey in 1987, asking the same questions of another 8,500 government workers. The results of both polls were remarkably similar: 1% of female respondents claimed to be victims of actual or attempted rape or assault; 6% reported pressure for sexual favors.

Only a few incidents involved a boss demanding a quid pro quo from a subordinate—have sex with me if you want that promotion or want to keep your job. Most incidents occurred between peers or colleagues. In these cases job security isn't at stake, but the work environment can become abusive. Offensive conduct, according to the women polled, took the form of remarks (cited by 35% of women), suggestive looks (28%), touching (26%), pressure for dates (15%), and unwanted love letters and calls (12%). Men suffered all the same kinds of harassment, but the incidence was about a third that of women. Men were far less apt to talk about it or report it to supervisors.

Merit Systems found that the most likely victims—female or male—were single or divorced. Women were at above-average risk if they had college educations or graduate degrees; men, if they worked in clerical jobs. The risk was also higher for workers in places where the vast majority of their coworkers were of the opposite sex.

Harassment isn't just a matter of one employee's victimizing another. Clients and customers can also use the power of their position—go along or I'll give the sale to somebody else—as a license for licentiousness, especially in such fields as law, consulting, and advertising. In a 1989 *National Law Journal* survey of 900 female attorneys, 10% said that clients exerted unwanted pressure for dates, 9% com-



FORTUNE CHART / SOURCE: U.S. MERIT SYSTEMS PROTECTION BOARD, 1987

REPORTER ASSOCIATE: *Sara Hammes*

Du Pont's Di Sabatino: helping victims know what to do

plained of touching, cornering, or pinching, and 4% cited pressure for sex, sometimes as a prerequisite for getting the client's business.

So what should a company do to keep its employees—and itself—safe? Educating employees is vital but not easy, because there is considerable uncertainty and disagreement about what harassment is (see table). Legal doctrine has evolved fitfully since the landmark 1986 Supreme Court decision *Meritor Savings Bank* v. *Vinson*. That case expanded the definition of harassment to include verbal or physical conduct that creates an intimidating, hostile, or offensive work environment or unreasonably interferes with an employee's job performance.

Unfortunately, men and women harbor different notions of what's intimidating, hostile, or offensive. A survey conducted in 1981 by sociologist Barbara Gutek of 1,200 people in Los Angeles County found that 67% of the men said they would feel flattered if a colleague of the opposite sex propositioned them, while 63% of women would be offended. Another survey by *Redbook* magazine and *Harvard Business Review* indicated that 24% of the women believed that a man giving a female worker a visual once-over was harassment, while only 8% of men thought so.

The best corporate practice calls for companies to create and publicize a forceful policy against sexual harassment. In 1989, Honeywell clarified its once obscure and legalistic harassment statement by distributing handbooks in plain English to every employee and putting up posters in conspicuous places. As a result the number of reported incidents has increased significantly, a good sign suggesting that more victims are seeking help.

Corporate education programs typically start out by sensitizing employees to the issue of harassment and then use role playing or other techniques to rehearse tactics to counter it. Du Pont's efforts are a worthy model. In 1988 the company began offering its employees a four-hour workshop on harassment called "A Matter of Respect." So far 65,000 workers have gone through it. Explains Dar Di Sabatino, a director of the workshop: "We were hearing about subtle situations of harassment. The individuals didn't know what they could do about it or if they should do anything about it." Each workshop is led by a specially trained man and woman; these teams are recruited from all areas of the company, not just from human relations. Small groups—always a balanced mix of men and women—watch videos portraying incidents that can be from real life, then discuss appropriate responses.

THE SIMPLEST and most effective way to put an end to harassment in most instances is to ask or tell the person to stop. This just-say-knock-it-off tactic worked for 61% of the women who tried it, according to the Merit Systems survey. Telling other colleagues, or simply threatening to do so, proved the second-best response, effective 55% of the time. Pretending to ignore the offensive behavior—a common ploy—usually doesn't work at all.

When employees can't resolve the situation on their own, or feel unsure about what to do, employers should make it easy and safe for them to seek help. Since 1985, Du Pont has run a unique 24-hour hotline that offers advice on personal security and sexual harassment. Callers need not identify themselves, calling does not constitute bringing charges, and confidentiality is assured. "The hotline is a real source of comfort," says Di Sabatino. "It gives people direction and helps them think the issues through before they take any action."

If a victim of or witness to harassment lodges an official complaint, there must be an immediate response. At Du Pont, the employee's supervisor usually handles the matter, but if he or she is the accused, or the employee feels uncomfortable talking to the supervisor, a personnel specialist can do the job. Sometimes a full-fledged investigation may be necessary. Alas, fact finding is often difficult or impossible, since there may not be any witnesses or physical evidence of harassment. Paula Winkler, who looks into charges for AT&T, which, like Du Pont, has a policy of immediate investigation, observes that another problem is proving the sexual attention was unwanted. "One of the first questions we ask the victim," she says, "is, 'Did you tell the person you didn't like it, and how many times?' "

Quick action is essential. In the early 1980s the federal government took an average of 482 days to resolve a harassment complaint filed by one of its employees. Not surprisingly, many victims said they lacked confidence in the system and didn't enlist its aid. Winkler says AT&T strives to complete its inquiries in three to 20 days. Even that period can seem nerve-rackingly long. Du Pont sometimes engages security guards to prevent retaliation against complainants during investigations.

If allegations are proved, companies must find an appropriate response—from warnings to reassignment to termination of the offender. Du Pont automatically reassigns the harasser unless the victim specifically requests a transfer.

Occasionally the accuser is the guilty party. Winkler estimates that some 5% of allegations at AT&T prove false. They are commonly the work of employees taking revenge against a boss—often following a disappointing performance review—or conniving to switch departments. AT&T suggests that these people go through counseling, and some companies subject them to penalties, such as demotion.

A final, and timely, word of warning: Sexual harassment tends to be less common in stable companies where employees feel some loyalty to the corporation and to one another. They realize they must treat everyone with respect and sensitivity, if only because they are all going to be working together a long time. One ugly consequence of restructuring and recession is that they may jeopardize that kind of stability, creating work environments more conducive to harassment. F

BANKERS WHO BEAT THE BUST

In an industry shaken to its wing tips, these managers prosper. Their secrets: superior customer service, generous employee incentives, and knowing the local market. ■ *by Terence P. Paré*

HOW BAD OFF is the banking industry? On the East Coast, proud Chase Manhattan has been selling off pieces of itself. Out West, mighty Wells Fargo has added $350 million to its loan loss reserves. All across the nation, famous old banking names are disappearing in the wake of consolidation. Even crooks are feeling the pinch. The average take from bank robberies dropped 10% last year. Sorry, Willie Sutton, banks are where the money *isn't*.

Though these are the hardest times for them since the Great Depression, good bankers are running good banks in just about every area of the country. To find five of the best, FORTUNE screened statistics compiled by Keefe Bruyette & Woods on 245 of the largest publicly traded banking companies. We focused on two benchmarks of performance: return on assets (ROA) and return on equity (ROE).

ROA is the ratio of after-tax profit to assets—which for a bank include loans, securities, checks in the process of collection, foreclosed real estate. The best gauge of profitability, ROA measures how efficiently a bank's management deploys the money it borrows from depositors. ROE, the ratio of after-tax profit to shareholders' equity, calibrates the rate at which investors' stakes in the company grow.

To make the list, a bank had to have an ROA of 1% or better and an ROE of 15% or better every year for the past five years, more than twice FORTUNE 500's average for the top 100 commercial banks. With the hurdles this high, such well-known, well-run institutions as Banc One, First Wachovia, and J.P. Morgan fell short. We tossed out banks that made the numbers largely because they were in sheltered markets with little competition. And we relaxed the rules in Texas: In that battered economy a bank that performs about two-thirds as well as our standard—

Forget toasters. At University National Bank & Trust in Palo Alto, California, CEO Schmitt (center) woos customers with free onions and great service.

JOHN HARPER

First Abilene—should be judged as doing very well indeed.

Let's see how these superbankers do it.

A SMILE AND A SHOESHINE

■ At tiny University National Bank & Trust in Palo Alto, California, the free shine comes from a bootblack stationed on the left as you enter. The smile belongs to Carl J. Schmitt, 57, the infectiously good-humored chief executive. Remember the free toasters bankers used to give away? Schmitt, a man with tastes of his own, prefers to distribute onions—this year 23,000 pounds of them. Not just any onions, mind you, but sweet ones the size of bocce balls, grown only in Walla Walla, Washington.

A man who knows his onions, Schmitt figures that what he likes, University's customers will like too. That's why he started the bank 11 years ago and has built it to $325 million in assets. After 14 years as a loan officer at Wells Fargo and three years as the Superintendent of Banks for California, he felt financial institutions failed to provide the service customers wanted and would pay for. Says he: "Good bankers are like family doctors." The patients want a comfortable, long-term relationship.

University's service is a prescription for customer satisfaction. Monthly statements are mailed within two business days of the end of the month. Credit cards carry a variable rate of interest—prime plus 5%—which currently works out to 13%. Many banks charge 18% or more. Five vans call on business clients who are far from one of University's three branches to collect non-cash deposits.

So how can University pay for it all? Clients pay too. To enjoy the bank's amenities, they must open a checking account. For individuals, that will take a minimum of $2,000, on which the bank pays no interest. Then it hits them up for a $20 fee whenever the monthly balance falls below $1,500. The bank creates a clublike aura of desirability. Applicants who are not recommended by customers must submit to a credit check—to open a checking account!

All those onions bring stockholders plenty of cabbage. Over the past five years, University National has earned the stunning returns shown at right. The share price has more than doubled to $23.50 bid since 1986, and annual dividends have grown from 15 cents a share to 75 cents.

REPORTER ASSOCIATE *Patricia A. Langan*

Expansion is in the genes at Synovus, where Jim Blanchard multiplied his dad's single bank to 26.

TOUGHING IT OUT IN TEXAS

■ Like every other bank in the Lone Star State, Abilene's First Abilene Bankshares, with $769 million in assets, has been buffeted by the collapse in oil prices and the real estate bust. But unlike many of them, it stayed in the black. CEO Kenneth T. Murphy, 53, accomplished this feat by insisting that his institution remain a community bank—a small outfit owned and operated by members of the community and serving the immediate area. Says Murphy, with a modesty unbecoming a Texan: "The emphasis here has always been more on profit than on size."

Over the past five years, the gross state product, corrected for inflation, has grown at an average annual rate of 1.3%, less than half that of the country as a whole. But since 1986, First Abilene's average ROA, 0.8%, easily topped the 0.3% performance for the largest 100 commercial banks, while its return on equity of 9% beat out the big banks' 6%. And investors? A $100 investment in First Abilene stock in 1986 would be worth $215 by 1991, vs. $156 if the money had gone into the Standard & Poor's 500-stock index.

A onetime oil field roustabout, Murphy spent six years with the Comptroller of the Currency as a bank examiner before he joined First Abilene in 1971. He was appointed CEO in 1985. John Hamil, a local undertaker and a director of the bank, says, "There is not a lot of monkey play or horse business about Ken." Just horse sense. The holding company now embraces five subsidiary banks. Every loan is reviewed by the appropriate bank's board of directors.

First Abilene's five boards demonstrate the great strength of community banks. In addition to Murphy, who serves on all of them, the directors include local ranchers, farmers, contractors, and oilmen. Let management consultants drone on about getting close to the customers until the moon shines through the outhouse door. These directors can't get away from them. They bump into their borrowers on the golf course and at the Lions Club pancake breakfasts. Says John Snow, an analyst who follows First Abilene for Chicago Corp.:

FIVE SUPER BANKS Assets	Return on equity average 1986–90	Return on assets average 1986–90
University National $325 million	17%	1.2%
First Abilene $769 million	9%	0.8%
Wilmington Trust $3,800 million	24%	1.0%
Synovus $4,100 million	17%	1.5%
Fifth Third $8,500 million	16%	1.6%
Top 100 banks' average	6%	0.3%

SOURCE: CHART

"Community bankers know who is good, who is on the bottle, and who is having credit problems."

Good ol' boys make good ol' loans. All but 2.3% of First Abilene's $314 million portfolio are paying interest and principal on time. That performance beats the national average. About 3.2% of the typical bank's loans are nonperforming.

PROFIT/PERSON RATIO

■ Wilmington Trust was swamped and listing badly when Bernard J. Taylor II was piped on board the Delaware bank as CEO in 1979. Over half the assets were in long-term bonds, but high interest rates had sunk prices, leaving the liquidation value of the securities $60 million shy of the original purchase price. This at a time when the bank had only $78 million in capital.

Taylor's obvious task: Restructure the bond portfolio, and he was eager to get started. He had spent 28 years at Philadelphia's Fidelity Bank, the last six as executive VP of the holding company, when a management change cut him adrift. Wilmington offered a chance to captain his own vessel. But three months after Taylor got there, Federal Reserve Chairman Paul Volcker put the brakes on the money supply, and interest rates rose, like the hairs on the back of Taylor's neck, all the way to 21%. "Bond prices kept dropping," he recalls. "Every day I'd go home and say to my wife, 'How low can they go?' And the next day they'd go lower."

Bit by bit, Taylor, 65, sold off the bonds he could afford to unload and turned his attention to the other assets. As interest rates eased, for example, he refocused the bank on its profitable trust business and expanded into investment management. Using Wilmington's strong presence in the retail banking market as a base, he pushed hard into commercial lending by building up a staff that went out after business.

At the same time, he squashed the management structure. Once you would have needed to remove your shoes and socks to count all the levels between entry positions and the executive offices. Today you can do it on one hand. To light a fire under his charges, the CEO established a liberal stock option incentive plan for executives and a discount stock purchase plan for everyone from teller to Taylor. Employees may put up to 10% of their annual salaries in Wilmington shares at a 15% discount to the market price.

Productivity blasted off. In 1980 each of the company's 1,936 employees generated $7,804 in profits. By 1986 the figure was $20,849, and last year it reached $34,627. In Citicorp's best year on record (1988), it took 89,000 employees to earn $1.8 billion, an average of only $20,876 a head. The stock took off too, from $3 a share in 1980 to $50.50 recently.

With liberal stock incentives, Taylor turned his charges at Wilmington Trust into superproducers.

THE ACCIDENTAL BANKER

■ James H. Blanchard was just 28 and a practicing lawyer when his father, then president of Columbus Bank & Trust in Columbus, Georgia, died of lung cancer in 1969. The bank's owners and directors asked the son to take over, no easy task. During Dad's ten-year tenure, the bank had grown threefold in assets. What could they expect from Junior? Says he: "They said that I was my father's son. They thought I could do the job."

He's been doing it ever since. In 1988 he initiated a vigorous expansion. Columbus Bank & Trust became the nucleus of a holding company now called Synovus Financial, which owns 26 banks spread over Georgia, Florida, and Alabama. Net income at Synovus has grown 11.4% annually since 1988, reaching $35 million in 1990, while assets have ballooned 100% to $4.1 billion. Meanwhile, Blanchard, now 50, has gone from being the youngest bank president in Georgia to being one of the longest-serving chief executives of any company in the state.

None of the 26 banks wear the name Synovus, a portmanteau word resulting from "synergy," and "novus." The futuristic moniker seems sensible when you learn that Synovus also services the AT&T Universal card through an 82%-owned data-processing subsidiary called Total System Services. Only American Express's First Data Resources unit serves more than the 111 financial institutions that Total System does. It also suggests the way the boss runs his business, which could be considered B-school perfect.

Blanchard relies on a highly decentralized system that usually leaves the acquired bank's management in place and name on the door. Headquarters sets overall financial targets but otherwise interferes as little as possible in day-to-day operations. The local bank president—not two or three people in Columbus—decides to whom he

will lend. That responsibility empowers the local managers. Says Blanchard: "Everyone is energized."

NO BANKER'S HOURS

■ George A. Schaefer Jr. knows exactly how comedian Jay Leno must feel about taking over from Johnny Carson on *The Tonight Show*. As the new chief executive of Fifth Third Bancorp, the Cincinnati outfit with $8.5 billion in assets, Schaefer comes on stage after one of the best acts in the business, Clement L. Buenger.

When Buenger, 65, stepped down as CEO and became chairman last January, he left behind a bank with a distinctive name—it is the result of a merger early in the century between Fifth National Bank and Third National Bank—and distinguished financials. Over the past five years, Fifth Third's net income grew an average 14% a year, and its stock price tripled. ROA averaged 1.6% over the period and its ROE 16%. Problem loans? Blessedly few.

The bank had always been profitable, but Buenger, who started his career as an accountant at a Kroger subsidiary, turned it into a selling machine. Selling at Fifth Third means, very simply, working hard. No banker's hours here. Managers are at their desks at 7:30 A.M. every day, and they stay there until 6:30 P.M. or later. Lending officers are accountable for every loan they make for as long as they remain at the bank, regardless of promotions. Everyone from the chairman down makes cold calls on potential customers. When the bank opened a new branch recently, Schaefer, who had just become CEO, led the troops on a blitz, knocking on the doors of homes and businesses in the area, introducing the bank to its new neighbors.

The army travels on incentives. Buenger instituted liberal stock option plans, and employees at all levels can receive bonuses so generous that Buenger boasts to recruits that if they work hard, they can fully expect to retire millionaires. Fifth Third already has several secretaries worth $500,000.

Backed by 20 years of experience at Fifth Third, the gung-ho corporate culture, and the discipline he learned at West Point, Schaefer, 46, is confident that he can continue the bank's superior performance. Says he: "There isn't any mystique to what we do. It's Woody Hayes–type banking. Three yards and a cloud of dust straight up the middle." Sounds like the game plan for any championship bank. F

Thuy Thu Le, Vietnam Refugee, returned to Asia to act in "Casualties of War."

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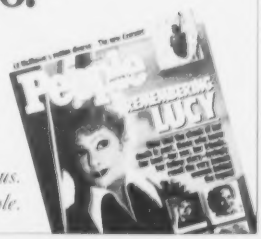

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LIQUOR PROFITS

We're drinking less, but the big liquor sellers are earning more. They understand global brand management and joint ventures so well that falling demand doesn't faze them. ■ *by Bill Saporito*

IN ALL THE GIN JOINTS in all the towns in all the world, a guy looking for a drink doesn't have as much company as he used to. The thirst for liquor is ebbing in the United States, where the volume of spirits sold has been decreasing about 3% annually for half a decade. The Brits quaff less beer, and the French drink less wine. And this year the Gulf war scored a direct hit on the liquor industry, as the related drop in travel taxed the duty-free business severely. "It's definitely the toughest year we've faced in quite some time," says Edgar Bronfman Jr., president of Seagram Co. Ltd.

But if all this leads you to think the industry is hurting, you've been misinformed. Last year was a corker for the big booze companies, each of which had record profits. And even with worldwide consumption in decline, the industry projects a decade of solid earnings growth ahead, as new markets develop and old ones are harvested like so many cognac grapes. Last year, for instance, Bronfman's company increased operating profits in its namesake business 27%, to $612 million on sales of $4.8 billion. Try earning that from orange juice.

The industry's continuing success is absolute proof that global brands – each with a single, worldwide marketing message – can be sold to industrialized and developing countries alike. The universal message: Drinking better is part of living better. And

Making Scotch whisky is still a 17th-century process: Workers rack barrels of the stuff to age at Highland Distilleries' Tamdhu plant in northern Scotland.

RUNNETH OVER

when sophisticated marketing meets rising affluence in countries such as Thailand, Greece, or Brazil, demand there increases for expensive brands such as Chivas Regal, Smirnoff, Johnnie Walker, and Courvoisier. The only soft spot in this strategy is the U.S., where recession is boosting value brands at the expense of the higher-priced stuff—a short-term blip, say industry strategists.

Most of the global brands, as well as many leading national brands, are in the hands of four companies. Together they control about 35% of the spirits segment of what the British so nicely refer to as the drinks industry. That's a huge share compared with that commanded by leaders in most global consumer products and about twice as big as their share just five years ago, before a wave of acquisitions swept the business. "The industry has engaged in incredible consolidation, more than anyone thought possible. And it is not over," says Marvin Shanken, publisher of *Impact*, an industry trade bible.

It is a very British industry, a historical consequence of Prohibition in the U.S. and the 500 or so years that the Brits have spent in the wine and whiskey trade. Three of the world's four largest liquor companies are headquartered in London. "This business is all about selling image, and who could be better at that than the British?" notes one of them, John Wakely, European beverage analyst at Lehman Brothers International. Liquor is one of Britain's largest sources of export revenue.

The largest seller by volume is Grand Metropolitan, also owner of Pillsbury and Burger King, whose International Distillers & Vintners (IDV) sold 60 million cases of spirits last year and whose wines and spirits brought in $5 billion in revenues. Guinness, the Dublin-born company better known for its stout, sells nearly twice as much whiskey—$3.8 billion worth—as beer, and at four times the profits. Allied-Lyons, also a brewer, owns Dunkin' Donuts and Baskin-Robbins ice cream parlors, but the company's Hiram Walker Group does far better with products like Canadian Club than Allied does with butter pecan. The Canadian-based Seagram has diversified from the whiskey that made the company legendary during Prohibition and rich after it. Ironically, though, Seagram's 25% share of Du Pont has been losing value.

REPORTER ASSOCIATE *Jennifer Reese*

Guinness CEO Anthony Tennant made brand management rather than production the industry focus.

TO THEIR considerable benefit, the spirits players grasped three key concepts long before many other industries. The first is that truly global brands are powerful profit engines. Wakely estimates that the Johnnie Walker brand alone contributed $500 million in operating profits to Guinness last year. Moreover, a portfolio of existing international brands seems bound to increase in value, because new brands are nearly impossible to establish. Even hot "new" products such as Baileys Original Irish Cream are more than ten years old.

The second concept is that crafting an image and a market position for a brand is useless unless you also control the pricing and distribution of the product. At one time most spirits companies acted as exporters and lost control over their brands when the bottles left the loading dock. But as they began acquiring more brands, the big players also began systematically acquiring scores of distribution companies—the outfits that sell the brands in a given country or market, either to wholesalers or directly to retailers. Guinness alone has displaced some 700 of its distributors in five years.

Third, the big competitors recognized the importance of cooperating with one another in countries where no single company had the market share or the assets to make much headway in distribution. They have done an exceptional job of understanding and executing some unusual joint ventures. Grand Met, for example, has four partners in the Far East, one of which is Seagram.

This unified global strategy is producing staggering profits. The spirits segment of Guinness had 1990 operating earnings of $1.2 billion on sales of $3.8 billion, an operating profit margin of 31%. Only one other packaged goods business regularly produces numbers like that—the tobacco industry. Increases in operating earnings at the Big Four approached 25% last year; Grand Met's IDV unit has a five-year compound growth rate in earnings of 26%. The four

PHOTOGRAPHS BY DAVID GAMBLE

leaders last year produced operating profits of $3.4 billion on sales of $17 billion.

This year the Gulf war and a steep recession in Britain will end that giddiness, although earnings will still improve about 10%. Industry executives see the slowdown as temporary. Says Edward McDonnell, head of the spirits and wine group at Seagram: "Look at IDV, Guinness, ourselves. We've never made more money in our history, and our forecasts are for very dynamic growth from distilled spirits for years to come."

MCDONNELL'S prediction comes despite the knowledge that the world's consumption of liquor dropped about 1% last year, to 525 million cases, in what used to be called the Free World. But declining absolute consumption isn't news to the industry, and more important, it doesn't matter. Argues Anthony Tennant, CEO of Guinness: "Consumption is not actually a very good indicator in any business of whether there are opportunities there." In mature markets such as the U.S., Britain, and Northern Europe, the industry strategy is to accept the fact that consumers are drinking less and try to persuade them to drink better. The byword for this process—invoked relentlessly at all four companies—is trading up.

Guinness rode the trend to glory in the Scotch category, where it now owns 40% of the market with brands such as Johnnie Walker, Dewar's, Bell's, and White Horse. From 1979 and into the 1980s, various independent Scotch bottlers tried to make up for falling sales in the Anglo-American market by cutting the price, a futile policy that probably cost them millions. Says Tennant: "The fact is that the real price of Scotch today in the United States is below the 1970 price."

Guinness stopped trying to persuade consumers to drink more Scotch and set about establishing a position and price for each brand and enforcing consistency worldwide. Says Tony Greener, head of United Distillers Group, or UD, as the spirits unit of Guinness is called: "If you perceive yourself a maker of Scotch, you can sit there in Scotland and make it. But if you are a marketer of brands, you have to think about image and position. This was not a thought that crossed anybody's mind before."

Tennant, first as head of Grand Met's IDV and then as CEO of Guinness, is the prime architect of the industry's new strategy. His strategic coup de main at Grand Met was persuading RJR Nabisco boss Ross Johnson to sell him Heublein Inc. in 1987 for $1.2 billion, a stiff price at the time but a steal in retrospect. Heublein gave IDV 13% of the American spirits market and full ownership of the world's leading vodka brand, Smirnoff, enhancing a portfolio that already included top brands such as J&B Scotch and Gilbey's gin.

BEFORE THE INK was dry on the Heublein deal, Tennant was running Guinness in the aftermath of a scandal that cost the then-CEO of Guinness, Ernest Saunders, his job and, ultimately, his freedom. In 1986 Guinness tangled with Argyll, a supermarket company, in a battle to take over Distillers Co., the leading Scotch whisky company in the world. Saunders and others illegally manipulated the price of the stock in an effort to pump up their company's exchange offer. Distillers went to Guinness, but Saunders went to jail.

The new emphasis on managing a portfolio of brands has made international labels extremely valuable. Seagram surprised the industry in 1988 by outbidding IDV and paying nearly $1 billion to buy Martell, a fading No. 2 in the cognac business. But Seagram was counting on its distribution clout to get Martell into more places than its previous owners, the Martell family, had. Martell was using a number of different labels and a variety of ad campaigns to sell its products worldwide. Worse, the company sold more of the lower, VS quality, than of its best, the XO and VSOP varieties.

Seagram uses one redesigned label, and it refocused the brand on the high end of the market. Last year it launched a worldwide campaign called "The Art of Martell." The faces were changed to match the countries, but the ad message was the same. Something worked; so far this year, case sales are up 9% worldwide. Even better, Martell has helped Seagram increase profits 100% in the Far East.

In the past five years, international brands

THE TOP FOUR AND WHAT THEY OWN

Company	Major brands (category)	World rank	Rank in category	Volume (millions of nine-liter case equivalents) 1989	% change 1988-1989
Intl. Distillers & Vintners (GrandMet)	**Smirnoff** (vodka)	2	1	14.8	5.0%
	J&B Rare (Scotch whisky)	6	2	5.3	6.0%
	Popov (vodka)	15	2	4.0	-
	Baileys (liqueur)	23	2	3.3	13.8%
	Dreher (brandy)	37	3	2.4	60.0%
	Total major brands			29.8	8.4%
United Distillers (Guinness)	**Gordon's Gin** (gin)	4	1	6.9	0.5%
	Johnnie Walker Red (Scotch whisky)	5	1	6.4	2.1%
	Bell's (Scotch whisky)	13	4	4.1	-
	Dewar's (Scotch whisky)	22	5	3.4	-3.5%
	Johnnie Walker Black (Scotch whisky)	27	7	2.9	3.6%
	Total major brands			23.7	0.8%
Seagram	**Seagram's 7 Crown** (American blended)	10	1	4.4	-2.2%
	Seagram's Gin (gin)	17	2	3.8	5.6%
	Chivas Regal (Scotch whisky)	24	6	3.2	6.7%
	Seagram's VO (Canadian whiskey)	29	3	2.7	-3.6%
	Crown Royal (Canadian whiskey)	59	6	1.8	5.9%
	Total major brands			15.9	1.9%
Hiram Walker Group (Allied-Lyons)	**Ballantine's** (Scotch whisky)	7	3	5.1	6.2%
	Canadian Club (Canadian whiskey)	25	2	3.1	-
	Kahlua (liqueur)	30	3	2.6	4.0%
	Beefeater (gin)	45	5	2.2	4.8%
	Teacher's (Scotch whisky)	53	11	2.0	-
	Total major brands			15.0	3.4%

Nearly two-fifths of the top 100 brands are in the hands of the Big Four, and most of their best brands have increased sales. The No. 1 brand, however, is Bacardi, which dominates the rum category. No. 3 is Ricard, made by Pernod Ricard. Ten companies own more than 60% of the top 100 brands.

Allied-Lyons's Michael Jackaman relies on rival Seagram to deliver the goods in France, Germany, and South Korea.

such as Martell have increased sales nearly 15% in a market where total volume decreased. Worldwide sales of the top 100 brands grew 3.7% in 1989 while the market shrank 5.7%. The low-end brands and those of some smaller companies, lacking big marketing budgets, are being forced to swallow the biggest declines. Says George Bull, who now runs Grand Met's IDV division: "If you're in the commodity end of the market, either in spirits or in wine, you are beginning to look as if you could be in some trouble." Grand Met picked up one market share point last year, and now has a 10.6% global share.

The trade-'em-up strategy is getting its stiffest test in the industry's biggest and most problematic market, the United States. In this health-addicted country, overall liquor consumption will decline by about 6.5% in 1991, according to *Impact*—double the rate of previous years. Part, but not most, of the decrease can be explained by consumers' stocking up last year before a big boost in federal excise taxes.

EVEN AS the ostentatious Eighties fade, U.S. consumers are still tending toward behavior that marketers call "purge and splurge." Translation: Aging yuppies cut down on fats, alcohol, and cholesterol, but when they do indulge, it is with a taste for the best. And how else do you know your booze is best unless it costs a lot? Between 1985 and 1990 sales of premium-priced brands, those costing more than $10 a bottle, increased 5% while sales of cheaper stuff fell as much. Sales of trendy products such as Absolut vodka and José Cuervo tequila continue to increase rapidly.

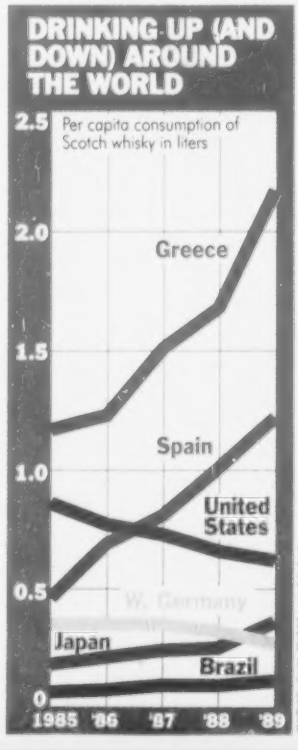
Recently, though, economic woes have appeared to undercut purge and splurge. The second tier or so-called price brands are holding up better than the name brands. Says *Impact*'s Shanken: "The condition in the marketplace is probably as unpleasant as I have seen in my 20 years of watching the industry. There seem to be more sharp declines in sales of leading brands than ever before." Executives such as Allied-Lyons's new chairman, Michael Jackaman, are convinced that consumers will return when the economy does. For now, the industry leaders are holding the price line, unwilling to break ranks and throw the business into a price war. Their forbearance is bolstered by the fact that they own the bargain brands too. But while they haven't trimmed their expectations, both Seagram and Hiram Walker have trimmed their U.S. staffs.

Fortunately for the industry, in new markets shifts in personal income, lifestyles, trade, and tax policy are prompting consumers to switch to global brands. In Southern Europe, for instance, trade barriers that kept whiskey out of Spain fell when that country became part of the European Community. As a result, Spaniards are abandoning their native brandies for Highland malts. Whiskey accounted for 22% of the Spanish spirits market in 1989, up from 9% in 1985, and the figure is rising. Spain is now the single biggest market for Grand Met's J&B and Allied's Ballantine's. Says Greener of UD: "If you look at emerging nations, as they become affluent they [switch] to international products. Scotch is an easy way to demonstrate that you are in that league." He points up the selling angle in all this: "You get more and more people coming into the net. Then you can trade them up further."

The trend has been most pronounced in Japan. When tax barriers fell in 1989, the status-crazed Japanese began switching to Western brands. Now they spend $1,000 a bottle for Old Parr Elizabethan in a hand-blown crystal decanter. Buying habits like that give a whole different meaning to a price war. Notes George Bull, CEO of IDV: "What we're competing about is not to cut our price lower than the competitor. It is actually to keep the price for our brand higher. We're in the image game, and image and price work together."

Even as some markets mature, others develop a thirst for the good stuff. Says Jackaman: "Places like Thailand are very important to us all. Or South America. God knows how many cases of *cachaca* [the local poison] there are in Brazil—17 million or something like that. Slowly, slowly that will change to whiskey or some other developed-market drink."

In fact, a few of the big companies are catching



IDV's George Bull doesn't want to be cheaper than the competition.

Brazil coming and going: Much of the domestic Brazilian market is already in foreign hands. Grand Met's IDV owns Dreher, the top-selling brandy. Seagram is Brazil's leading spirits manufacturer. When government policy shifted in 1990 to allow imports of global brands, the company was ready.

If the big players have a healthy appetite for brands, their hunger for distribution companies is ravenous. It used to be that private distribution companies, not brand owners, held sway over the products in many markets. At Guinness, Tennant wasted little time absorbing, via acquisition, the company's U.S. distributor, Schenley Industries, and its main Japanese distributor. In four years Guinness has increased its control of distribution from 25% of its sales to more than 80%.

Seagram began buying its distributors over a decade ago. Last year it bought control of its Greek distributor and formed a new venture in Taiwan. Explains Bronfman: "Chivas Regal is Chivas Regal, whether you buy it in San Francisco, Hong Kong, New York, or Paris, and you've got to manage your business globally. Your pricing, your sales—everything has to be consistent."

When buying distributors doesn't make sense, the giants get control by forming joint ventures, even with their fiercest rivals. Guinness currently has more than 35 joint ventures, including linkups with Bacardi, which sells Guinness products in South America. The idea is to put a socko sack of brands in the hands of one sales force and have greater clout with retailers while spreading the overhead across two companies. Each company shares in any profits from the distributorship and gets all the profits from its own brands.

One of Guinness's most profitable joint ventures is with LVMH Moët Hennessy Louis Vuitton. It paid $1.8 billion to buy 24% of LVMH in 1988, and LVMH made a reciprocal investment in Guinness. The investment—now worth over $2 billion—gave Guinness a powerful group of new brands for its salesmen to carry and also gained the company a gateway to the Far East, where LVMH's Hennessy is by far the leading cognac. Guinness, in fact, dropped Suntory, the powerful Japanese brewer, as a distributor. Guinness and LVMH also own Schieffelin & Somerset, a big U.S. distributor.

LISTEN TO Allied-Lyons boss Jackaman describe his alliances: "Seagram handles us in Germany and France, and we work with Seagram in Korea. We also have a joint venture in Australia with IDV. Yet we represent Benedictine in the U.S.A., while IDV works closely with Cinzano. We represent Drambuie in the U.S., yet we're competitors with Drambuie." Allied also owns 28% of Pedro Domecq, Spain's leading brandy maker, with whom it has distribution agreements in South America and Southern Europe.

Allied's most interesting linkup is with Suntory, Guinness's former partner, which is now Allied's distributor in Japan. Suntory, Japan's largest domestic whiskey maker, is losing the protection that import duties once provided its products. Japan's consumers are switching to Western cognac and whiskey, and Suntory has none of its own to sell. Allied, on the other hand, needed a Japanese partner with clout, particularly after Guinness set up with LVMH. Japanese sales of Allied's flagship Courvoisier cognac have doubled since the linkup with Suntory, which Jackaman claims has the Japanese industry's top sales force.

There is, of course, an inherent contradiction in these joint ventures. "Would Jaguar have Mercedes distribute its cars in Germany?" asks Lehman's Wakely, paraphrasing Tennant. Such is the case in France and Germany, where Seagram, the owner of Chivas Regal Scotch and Martell's cognac, handles Allied's Ballantine's Scotch and Courvoisier cognac. Seagram avoids that conflict by creating yet another one: two competing sales forces. Each hawks a mixed bag of Seagram and Allied brands. For now, Jackaman is philosophic about the situation. "We're accustomed to working with our competitors, and I don't mean in any collusive way. We compete very fiercely one with another, but once you're in this kind of arrangement, it's rather difficult to get out."

The industry's thirst for acquisitions and joint ventures shows no signs of abating. Guinness needs a vodka, Seagram would like a couple of liqueurs, Grand Met could use a belt of cognac. It will cost them dearly. Allied, for instance, paid 25 times earnings in 1990 to buy the spirits business of Whitbread & Co., a British brewer, to get at another world brand, Beefeater gin.

The liquor business will continue to be pressed by higher taxes, increasing regulations, the health lobby, and a revitalized temperance movement, particularly in the more developed countries. And the U.S. and Northern European markets will continue to decline. But because of the strategy the liquor players have devised, what seems like discouraging news isn't.

"Everything you think of as bad for this industry is good for it," argues Wakely. Tax increases on alcohol may hurt volume, but they encourage consumers to trade up, thus reducing price competition. If advertising is prohibited, the money targeted for it will drop straight to the bottom line. And every new attack on booze does more to ensure that no new competitor would even think of joining the fray: not Nestlé, not Unilever, not PepsiCo, not P&G. That's something any executive would raise a glass to. F